Q2 2020 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Analyst, Scotiabank
- David Fishman, Analyst, Goldman Sachs
- Durgesh Chopra, Analyst, Evercore
- James Thalacker, Analyst, BMO Capital Markets
- Jeremy Tonet, Analyst, JPMorgan
- Jonathan Arnold, Analyst, Vertical Research
- Julien Dumoulin-Smith, Analyst, Bank of America
- Michael Weinstein, Analyst, Credit Suisse
- Shar Pourreza, Analyst, Guggenheim Partners
- Sophie Karp, Analyst, KeyBanc

Presentation

Operator

Good morning, ladies and gentlemen, thank you for standing by, and welcome to the DTE Energy Second Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker today Barbara Tuckfield, Director, Investor Relations. Please go ahead.

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 to operating earnings provided in the appendix of today's presentation.

With us this morning are Jerry Norcia, President and CEO; and Dave Ruud, Senior Vice President and CFO. And now I will turn it over to Jerry to start the call this morning.

Jerry Norcia {BIO 15233490 <GO>}

Well, thanks, Barb, and good morning, everyone, and thanks for joining us today. I hope you and your families have been healthy and safe during this pandemic.

I want to begin this update by saying how very proud I am of the DTE team because of the way we are working together to ensure each others safety and continue to serve our customers, support our communities, and deliver for our investors. It is great to be part of such an amazing team that have responded so well and achieved so much in this crisis.

This morning I'm going to provide an update on the successful implementation of our COVID-19 response plan that we discussed on our first quarter earnings call, which puts us on track to achieve our 2020 financial targets and positions us to achieve our long term goals; I will also provide highlight on the strong progress at each of our business units. Dave Ruud will then provide a review of our financials, and we'll wrap it up before we take your questions.

Before we start, I'd like to take the opportunity to congratulate commissioner Dan Scripps on the recent announcement appointing him to be the new Commission Chair. Since joining the MPSC, he has taken a balanced approach, and we look forward to continuing to work with him. I'd also like to thank former Chair, Sally Talberg for her tireless work and positive contribution on energy policy and regulatory matters for the State of Michigan.

So let's start on slide four. At the end of the first quarter, we shared our plans and respond to the pandemic. We also talk about what we were doing for our employees, customers, communities and investors, and how we will achieve our financial targets. We have progressed really well across each of these areas. Let's start with what we are doing for our employees.

We continue to focus on their safety and well-being, and since March over 5,000 employees have been working from home. Let me tell you that is going really, really well. Our systems continue to work well and supporting our people and many of our metrics have never been better, including safety and productivity. Our plant and field employees continue to deliver for our customers, as they adopted new procedures to ensure their personal safety and the safety of our customers. This may be the new normal or a better normal. We are looking at the possibilities of different and more flexible work arrangements that could continue to improve employee engagement.

Our employees remain highly engaged in this environment. I'm pleased to say that just about a month ago, we received Gallup Great Workplace Award for the eighth consecutive year. We are still the only utility to receive this award. It really reflects our company's strong culture and highlights our commitment to service excellence.

Our employees are driving very low interest rates with safety focus work putting us on track to have one of the best safety records in the industry. Our employees have worked hard to recover lost ground on paused work and are executing on the economic response plan. I'm very thankful for all the great work that our employees have been doing and continue to do, and I am very proud of our DTE bandwidth.

On the customer front, we continue to deliver safe and reliable energy. In fact many of our customer service operational metrics have improved over the last few months. We have also ranked nationally in the top quartile of JD Power for Residential Service Excellence. Additionally, we are finding creative ways to help our customers during this pandemic beyond reliably delivering their essential energy. For example, we significantly streamlined payment plans for those who are impacted by COVID-19 and continue to help connect our most vulnerable customers with energy assistance programs. We did this with extensive cooperation with the MPSC and the Department of Health and Human Services and are extremely thankful for their cooperation.

We realized that for some customers growing and energy assistance programs like the State Emergency Relief Fund can be very difficult. To make sure no one has left behind, DTE trained over 60 employees to guide people through every step of the enrollment process. To-date, we have submitted nearly 1,500 applications on behalf of our customers. We also received approval from the MPSC for an innovative approach for holding electric rates flat through 2021, while still delivering on our financial targets.

We also experienced a couple of significant storms in June and July, in a normal DTE fashion, our employees and contractors reacted very quickly and efficiently. We're able to restore power safely, as our team is working around the clock. I want to thank all our employees involved in these incredible efforts.

We also continue to address the needs of our communities through philanthropy and volunteerism. Due to our community focus work and our world-class volunteerism, we are recognized by Points of Light, as one of the country's top Corporate Citizens. We've engaged employees, customers, who are satisfied with their service and communities that are resilient. We also continue to deliver value for our investors.

I'm pleased to say that we are in a position to reaffirms 2020 operating EPS guidance, with the potential to hit the higher end of guidance on some of our business units. We continue to target our 5% to 7% operating EPS growth rate, and our balance sheet is strong.

Let's move to slide five, where I'll talk more about our accomplishment this year. Our second quarter results are strong, and our year-to-date operating earnings across all business units are solid. As we mentioned in the first quarter call, we developed a response plan to mitigate the significant weather and COVID-19 challenges we were experiencing. And I can tell you that we are executing on this plan.

So far we have made great progress with cost savings across the company. Our electric load recovery is tracking better than we forecasted across all customer classes. Weather has provided a strong tailwind, and our non-utility businesses each continue to perform at or above the original plan. With all of these extraordinary efforts and events, we are confident in achieving our financial targets for 2020 and have positioned ourselves well for 2021 and for our long term growth.

We have seen significant progress on our key efforts at each of our business units, and on the regulatory front, we have solidified our positions through most of 2021. At DTE Electric, we received a constructive general rate case order in May of this year and received approval recently for an innovative plan that will avoid increasing electric rates for our customers during these challenging economic crisis.

At DTE Gas, we filed a settlement agreement for our general rate case, and announced a commitment to partner with our customers and suppliers to achieve net zero greenhouse gas emissions by 2050. At our Gas Storage & Pipelines business, LEAP is flowing test gas this month and will be fully in service on August 1st. We got the pipe in the ground ahead of schedule and under budget. This is a very significant accomplishment in today's environment to be to construct a pipeline on time and on budget, 150 miles of length and 36 inches in diameter.

Finally at our Power and Industrial business, we finalized an agreement on the industrial energy services project we mentioned last year. I'll go into more detail on these and other accomplishments on the next few slides, but I'll say that these efforts continue to position us for long term success and to achieve our 5% to 7% operating EPS growth target through 2024. We are well on our way to meeting our 2020 goals making this the 12th consecutive year to meet or exceed our targets.

Let's move to slide six to discuss the strong progress we are making on our economic response plan. Overall, we are doing well and the impact of these challenges is less than what we forecasted. During our first quarter call, we laid out two scenarios for Michigan going back to work, a may start scenario and then a slow start scenario. For the most part, we are tracking ahead of our May start scenario, as Michigan has been returning to work at a really good pace.

During these unprecedented times, we are being surprised through the upside. We watch our electric sales data daily with the help of our AMI technology. Overall, we estimate that full year impact on electric sales will be better than what we laid out for you on our first quarter earnings call, with residential sale tracking ahead of the plan and commercial industrial sales tracking for the May start scenario.

Our forecast was based on the data that we are experiencing in the shoulder months, and we are seeing that the summer sales response is even stronger. To give you a sense of the rebound in sales, our most recent AMI data shows commercial sales returning to approximately 90% of pre-COVID budgeted levels and industrial sales returning to approximately 95% of pre-COVID budgeted levels. Residential favorability is due to the warm weather and people being at home during the day, not adjusting their air conditioning when they would have normally been at work. We're also seeing our COVID-19 cost tracking closely to our plan.

Now, let's switch over to our response plan that we laid out in the first quarter. We are tracking right on target, and have identified and now implemented cost savings across all of our businesses. Again, a lot of these savings will be one-time in nature, but we continue to look for opportunities for more permanent savings. As I mentioned, we have had tailwinds from some warm weather this quarter that has continued into July is providing some favorability to our plan. With this weather favorability in 2020, we refined our response plan going forward to develop ways put us in a strong position for 2021 pulling ahead the future costs, positioning us to minimize future rate impacts on our customers. We are also confident in signaling that we'll be at the higher end of earnings guidance at the electric company, pipes business and energy trading. Dave will talk more about that in a few minutes.

With that, let's move to slide seven to go over our business update. At DTE Electric, we reached regulatory agreements that continue to support key priorities for our customers. We also achieved some operational milestones within the business. We received a constructive rate order in May, and a few weeks ago, we received the MPSC's approval for our alternative rate cases strategy that avoids additional rate increases for our customers. This innovative plan includes the acceleration of a deferred tax amortization to support earnings at our allowed ROE, and the securitization financing for our enhanced tree trimming work and the accelerated retirement of our River Rouge Power Plan. This strategy allows us to keep rates unchanged through 2021 by delaying a rate case filing, while still maintaining our cash position and customer affordability, while solidifying regulatory certainty in the plan.

We also received approval for our amended renewable energy plan. This plan will bring an additional 350 megawatts of wind and solar projects online and enables us to meet our 15% renewable standard goal for 2021. The new solar projects will triple DTE solar generation capacity. When operational, new projects will annually offset greenhouse gas emissions from the equivalent of 134,000 cars.

We remain Michigan's largest renewable energy producer. I'm proud to say that we also commissioned the largest wind park in Michigan in the second quarter. The Polaris Wind park has 68 turbines, which can power 64,000 homes. This is a significant step toward our goal of reducing carbon emissions by 50% by 2030.

We remain committed to delivering clean energy for our customers and for the community. Additionally, our commitment to clean energy also benefits Michigan's economy. Since 2009 DTE has been the largest investor of renewables in Michigan driving $3 billion in solar and wind energy infrastructure and investments. Over the five year plan, the company will invest an additional $2 billion in renewable energy assets and more than double its renewable energy capacity. By 2021, 15% of our customers power will be generated with renewable energy.

Now, let's talk about the gas company on the next slide. At DTE Gas, we recently announced our commitment to net zero greenhouse gas emissions by 2050. We will achieve this goal with a combination of energy efficiency measures and promoting more efficient natural gas usage within our customers' homes. We will require our natural gas suppliers to cut their emissions by reducing methane losses that happen, while they drill for gas.

Within our operations, we will reduce our emissions through operational improvements such as replacing older pipes, upgrading engines at our compressor stations to increase the efficiency and developing the renewable gas options through carbon offsets and biosequestration. Through our gas utility, we will be reducing greenhouse gas emissions by more than 6 million metric tons a year by 2050.

On the regulatory front, we reached a constructive rate case settlement of $110 million of rate relief, which supports our investment plan and includes a 9.9% ROE, with a 48.%, 52% [ph] debt to equity capital structure. This settlement of course is subject to MPSC approval. After a brief pause, we resumed our main renewal work and are tracking to complete our planned 200 miles in 2020. We also began construction on our transmission system renewal project. Our goal is to mitigate the outage potential for our customers and ensure the integrity of our lines to be assessed through in line inspections. Overall, these projects will help us to continue to deliver safe and reliable service for our customers and transition with emission-free environment.

Now, let's move to the next slide and talk about our pipeline business. GSP continues to perform well, as we continue to see favorability across all platforms in the second quarter. Conditions for the natural gas focused midstream business, particularly in the basins that we're in continuing to be favorable to supply and demand dynamics caused by low oil prices.

As I mentioned earlier, construction of our LEAP pipeline is complete. We are flowing test gas this month and will be fully in service on August 1st. This pipe will be a great addition to our portfolio, transporting gas for the Gulf markets. All of our assets are located in strategic well positioned locations creating great opportunity for future growth.

Our counter parties continue to perform on plan and remain in solid positions, are highly hedged over the next couple of years and have minimal near term maturities. Our contract structures are robust and include demand piece, minimum volume commitment and credit revisions. GSP business is producing strong adjusted EBITDA of about $700 million or 2.4 times our operating earnings. And it has a 2020 allocated debt to adjusted EBITDA of approximately four times, which will decrease after the first full year of LEAP being in service. We need to focus on organic growth and value creation from our well positioned platforms, while providing visibility into GSP's financial strength and making it a premier midstream business.

Now, I'll review our progress of P&I on the next slide. At P&I, we continue to focus on the development of RNG and industrial energy services project to backfill the sunsetting REF project. We finalized a new co-generation agreement this quarter and construction activities have begun with an estimated 22 in-service date. As we mentioned on our first quarter earnings call, Wisconsin RNG and Ford CEP projects are fully operational. These projects drive long-term growth and focused on a cleaner environment. All of this progress puts us in a very good position to reaffirm our P&I guidance for the year.

Before I turn it over to Dave to talk about our financial performance, let me summarize by saying that 2020 is setting up to be a really strong year. The regulatory settlement at our two utilities and the early in-service date of the LEAP pipeline have removed significant uncertainty for 2021, and we are deep into planning for a successful 2021. Now Dave, over to you.

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone. First of all, I want to thank everyone for the well-wishes I've received since taking on my new role as CFO. It's been a pleasure meeting many of you over the past few months at least virtually, and I look forward to having more conversations and hopefully meeting in person at some point.

Let's move on to our financial update on slide 11. Total operating earnings for the quarter were $295 million. This translates into $1.53 per share for the quarter, and 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 $219 million for the quarter, which was $85 million higher than 2019, largely due to the implementation of new rates, warmer weather, non-qualified benefit plan, investment gains and a one-time tax item offset by rate base growth costs. As you remember from the first quarter call, we had incurred investment losses related to our non-qualified benefit plans, which are recognized immediately rather than smooth over time. Now, in Q2, we saw gains from those investment, as the plant experienced the same positive results, as the overall market in the quarter. We've now taken steps to reduce the volatility of the investments going forward, so we won't experience these market driven movements in the future.

Moving on to DTE Gas, operating earnings were $11 million for the quarter, $7 million [ph] higher than last year. The earnings increase is driven primarily by cooler weather at the beginning of the quarter and infrastructure recovery mechanism, partially offset by rate base growth costs.

Let's keep moving down the page to our Gas Storage & Pipelines business on the third row. Operating earnings for our GSP segment were $70 million for the quarter, up 20 million versus the second quarter of 2019, driven primarily by the Blue Union acquisition. As Jerry mentioned, our GSP business continues to perform well in 2020. We told you on the first quarter call that our GSP business was performing ahead of plan and that trend continued through the second quarter.

On the next row, you can see our Power & Industrial business segment, operating earnings were $25 million, $4 million lower than the second quarter of 2019. This decrease is due to a lower steel-related sales and REF volumes, partially offset by new cogeneration and RNG projects. P&I continues to be on track to achieve its operating earnings targets for the year.

On the next row, you can see our operating earnings at our Energy Trading business were $5 million for the quarter. Earnings were $7 million higher in Q2 2020 compared to Q2, 2019, primarily due to the performance in our gas portfolio. Our trading business has had a very strong first half of 2020. And in the appendix that contains our standard Energy Trading reconciliation showing both economic and accounting performance.

Finally, Corporate and other was unfavorable $3 million quarter-over-quarter, primarily due to timing of taxes.

Overall DTE earned a $1.53 per share in the second quarter of 2020, which is $0.54 higher than the second quarter of 2019. Achieving our economic response plan savings this quarter supported our favorable results across all of our business units.

Now let's move to slide 12. As Jerry mentioned, we are on track to achieve our operating earnings guidance for this year and the high end of guidance for DTE Electric, GSP and Energy Trading as illustrated by the green arrows. Starting at the top for DTE Electric, we've been experiencing some very warm weather, so far in July. Along with that favorability, we expect to offset COVID-19 economic impact with the response plan that we are executing.

Our GSP business has performed very well across each of its platform this year, and this gives us confidence that we'll reach the higher end of our GSP guidance. For the Energy Trading business, we are keeping in line with our conservative planning for the balance of the year. We are comfortable with the 2020 guidance range, you see on the page and are targeting the higher end of that guidance range because of the strong performance for the first half of the year.

Moving on to the next slide, I will briefly touch on our balance sheet. Our leverage and cash flow metrics are within targeted ranges. For equity issuances, we are still targeting the $100 million to $300 million range for 2020. We remain on track for equity plan through 2022. We are maintaining solid investment-grade credit ratings. We continue to focus on top tier cash management, but we took fast action to ensure strong liquidity at the onset of the crisis.

Now, I'll wrap things up on slide 14. Our DTE team is continuing to focus on our safety, health and engagement, as we deliver for our customers and focus on the well-being of our communities. We remain well positioned to achieve our 2020 financial targets, as well as our long term 5% to 7% operating EPS growth target. This growth is underpinned by our five year capital investment plan with 80% of it being invested in utility infrastructure and cleaner energy. This growth is also supported by the continuation of our strategic and sustainable growth in our non-utility businesses. We will continue our track record of delivering for our investors, while maintaining strong credit metrics, a strong balance sheet and offering a healthy 7% dividend increase.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question comes from the line of Shar Pourreza with Guggenheim Partners. Please go ahead.

Q - Shar Pourreza

Hey, good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

A - David Ruud {BIO 16089859 <GO>}

Good morning, Shar.

Q - Shar Pourreza

A couple -- good morning. Couple of questions here. First on the first quarter call, you rolled out the lean actions to offset headwinds, and you reestablished a contingency plan measures were around 120 versus the 60 million in COVID cost. You're tracking well versus your 1Q plan COVID is better, sales are better, do you envision still meeting the full amount to achieve the '20 targets, obviously, you're planning to keep electric rates flat in '21. So trying to kind of figure out how much of the lean initiatives or the incremental cost cuts you need given some of the moving pieces? Or should we just assume you'll utilize the full extent to help overachieve the yet to be determined 2021 guidance maybe when you launch on '21, we could assume you'll have enough contingencies or levers to initiate on a range that could maybe point to the top end of 5% to 7%. So just curious on sort of those moving pieces?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. Great question, Shar. So at this point in time we're continuing with the full size of the economic response plan of $120 million that we talked about in Q1, and we're doing that for several reasons. One is the -- how this pandemic will play out for the balance of the year still is not a certainty. So we want to hold on the contingencies to accommodate any possible eventualities there. So that's one. And two, as you mentioned we are deep into the planning process for 2021 and feeling pretty good about 2021 with the results we're seeing now, and our abilities to pull forward expenses and create contingencies in 2021 across all of our business units.

Q - Shar Pourreza

Got it. That's helpful. So we look for that. And then just on the equity needs, prior language seems to allude to equity needs coming maybe a little bit closer to the bottom end of your ranges and -- and that language may have been removed. Is there any change there or is the prior language still kind of applicable? And I have just one follow-up.

A - David Ruud {BIO 16089859 <GO>}

(Multiple Speakers). Yeah. We are consistent with our 2022 equity plan still and look to balance issuances over that period. This year we've already issued about 70 million through some internal mechanisms, and we're -- we're actually expecting to be closer to the mid point of that range for the year now.

Q - Shar Pourreza

Got it. Okay. Thank you. And then just Jerry, just maybe strategically, just wanted to maybe get a little bit more reinforcement on your commitment to the midstream assets. Obviously, we saw with a very similar peer essentially exit the business, you call Gas Midstream. Thoughts on these trends and how you're thinking about the overall non-utility portfolio. I mean do you see these assets more in the hands of private ownership at some point especially as we get closer and deep into sort of this ESG and decarbonization trends in the sector, which is I guess, one of the reasons, why one of your peers exited that business. So I'm kind of curious on how you're thinking about this in light of your -- the move around ESG and decarbonization trend you clearly highlighted?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. Well, thanks for the question, Shar. We -- let me start by the distinctive features that this business offers to us and our investors. We like the business. It's created a lot of value for us over many years. We have some high value organic growth locked in for the next three years at approximately 10% earnings growth per year. We're positioned in two basins that will experience significant supply growth. And for the 10th year in a row, this business is exceeding our expectations. So we have really top notch commercial and operations team there.

In terms of selling, the market valuation is really at an all-time low. When you look back even before the shale -- shale revolution, so it really doesn't feel like the right time to sell to us. Although we're always looking for ways to optimize our portfolio and create value for our investors, and if another investor put significantly greater value on this business than our current investors, we would definitely consider it.

In terms of ESG, Shar, we have initiatives that drive towards net zero for a lot of these businesses, and they continue to add value to our investors in that way both in our gas LDC business, as well as our -- our pipes business.

Q - Shar Pourreza

Terrific guys. Thanks so much, and good job on the quarter. We'll talk very soon.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Q - Shar Pourreza

Thanks.

Operator

And you next question comes from the line of Michael Weinstein with Credit Suisse. Please go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Thanks. Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Micheal.

A - David Ruud {BIO 16089859 <GO>}

Hi, good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, I'm not sure did you just answered this question, for Shar there. I was just wondering why DTE Gas is also not at the high end of the range. I think you said DTE Electric and GS&P would be there, but I notice DTE Gas is not part of that?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, you want to start?

A - David Ruud {BIO 16089859 <GO>}

Sure. Yeah, DTE Gas, we experienced some -- some really warm weather in the first quarter that we're still trying to overcome. So we did have some cooler weather in the second quarter, but started to offset that. But we're -- we're really working on the -- our ERP plan there to try to make that come in as good as it came this year.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you.

A - Jerry Norcia {BIO 15233490 <GO>}

That's the -- the ERP is our -- cost reduction plans that will -- will bring us back in line there.

Q - Michael Weinstein {BIO 19894768 <GO>}

Right. And also, how has the cancellation of the Atlantic Coast Pipeline affected demand for NEXUS and Link, and your other assets directly, has there been a noticeable shift?

A - Jerry Norcia {BIO 15233490 <GO>}

It's certainly creating a positive environment Michael for both Link and for NEXUS. You'll recall the Atlantic Coast Pipeline kind of draped over our Link assets, and some of our shippers were counting on ACP to move their volumes East. Well, I think that Link certainly becomes a fundamental outlet for some of those customers in that region. And also, getting that gas to market positions NEXUS quite well for that. So we're starting to see -- continue to see more and more activity on NEXUS, which is positive.

Q - Michael Weinstein {BIO 19894768 <GO>}

Do you think the remaining one-third to be contracted long term. Do you think that could be happening sooner rather than later, as a result of the cancellation?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, it certainly will help. There is no question about that. I think we mentioned in our last quarterly call that we're starting to see some of our customers transition from seasonal contracts, that contracts that push beyond one year, and we're seeing more and more of that activity. We've actually seen some favorability in pricing as well in the first and second quarter and lock that in. So the asset is performing right on top of our proforma at this point in time. And all of these positive developments will only help that going forward.

Q - Michael Weinstein {BIO 19894768 <GO>}

Right. Also -- just one final question. Could you describe what you're seeing in terms of demand in the Haynesville and Marcellus versus other basins?

A - Jerry Norcia {BIO 15233490 <GO>}

So as supply has come off fundamentally in some other basins, like for example, the Permian Basin, which is an oil driven basin with associated gas, the -- the replacement of those supplies, as we start to see temperature, normal weather in the winter will have to come from two basins that can grow, which is the Appalachia [ph] Basin, which we're well positioned in with our assets, as well as the Haynesville. They are the two most attractive basins to increase dry gas supplies. So I think we're really well positioned for those assets. Now, as you know, we are contracted long term. So as those basins continue to grow, it should create some nice upside for us in the plan going forward.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. Thank you very much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

And your next question comes from the line of Julien Dumoulin-Smith with Bank of America. Please go ahead

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

Thanks, operator. Thank you, team. I appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

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

Also just wanted to follow up on -- good morning. Thank you. So I wanted to follow up on some of commentary. Again, at the highest level, can you comment on sales are trending better than you thought, but it sounds like COVID costs net-net are still in line. What's the discrepancy there, if there is any, if you see one right i.e. bad debt costs or whatever -- whatever that is, isn't quite keeping up with an improvement trend?

And then the second related would be, how do you think about sales trajectory now in light of the better than forecast trend in just the last few months? How does that position you, if you can think about that sales sort of initially into '21 if I can -- if I dare ask?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So let's start with the expenses. Those are very much in line with what we expected, and just give you example of couple of those are DTE protective -- protection equipment for our employees that was significant incremental expense that -- that we had forecasted would be there for the balance of the year. That's tracking on plan. Of course, significant cleaning operations that are required for both vehicles and facilities. That's tracking on plan. So those are two examples as to why COVID expenses are tracking to plan.

And as you mentioned, sales are tracking better than plan, especially in the residential sector, where we see a significant amount of margin generation compared to industrials. But even our industrial load and commercial load is slight -- tracking slightly better than plan. So all of those -- now the fact that we're on plan with our cost and ahead of plan with our sales as -- on essentially [ph] normal basis, just creates strong tailwinds for our financials this year.

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

But -- but '21 any specific commentary, as far as you see it?

A - Jerry Norcia {BIO 15233490 <GO>}

'21, as I mentioned we're deep into the planning process for 2021, and using the strength that we're seeing in our utilities and our non-utility businesses that create contingencies for 2021. So I would say, we're very well along in our planning for 2021 and feeling very good of the long term guidance that we provided as it relates to 2021.

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

And to clarify that even further. It sounds as if in your response to the prior question that you're largely still contemplating realizing the cost savings articulated from the last call in this current year, such that if I can draw this conclusion, your confidence in '21 does not include rolling forward these cost benefits, is that right?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say first of all, we're on track with the cost reduction plans that we talked about in the first quarter, the $120 million of net income that we're seeking, well on plan, tracking every month, every week. We track the plan on that. We're in fact using some of the strength that we're seeing in sales both due to weather and some of our residential load to help build contingencies for 2021. So I -- I would summarize by saying this way, we're shaping up to have a really strong 2020 and more to come on that in the third quarter, as we start to see this pandemic unfold a little more and -- and also shaping up to build a strong 2021.

Q - Jonathan Arnold {BIO 1505843 <GO>}

I'll leave it there. Thank you very much for the time.

Operator

And your next question comes from the line of Jeremy Tonet with JPMorgan. Please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just want to follow up with GSP a little bit here. And it seems year-to-date you guys, as you sort of tracking quite well versus guidance and this is even before LEAP comes into service, which seems very imminent here. Just wondering, is there anything kind of in the back half of the year that we should be thinking about seasonality or any type of offsets or headwinds because it seems like you're positioned to do well within the guide or even kind of beat the guide here. So just trying to figure out gives and takes with -- with the business?

A - Jerry Norcia {BIO 15233490 <GO>}

2021 feels like it's going to come in quite strong for GSP. The LEAP pipeline that was built into our original planning to come into service in the third quarter. So it's come in a littler early, which is -- which is -- well in August, 1st of August, start of the third quarter. So that feels good. So we feel very confident in 2020 plans and are actually working to use some of that strength to build a successful 2021.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That makes sense. And just kind of curious with the slack in the oil and gas industry right now, if you guys see much of an ability to kind of cut costs or as far as the budget for building LEAP expansion or other pieces that you're able to kind of get better efficiencies across there, just given where the industry is right now?

A - Jerry Norcia {BIO 15233490 <GO>}

Certainly, we've used the -- the pandemic as a reason to pursue cost reductions in the pipeline business as well. And all those cost reductions are benefiting 2020 certainly, and we'll look at what of that we can roll into 2021 as well, so that we can create greater strength and contingencies for 2021. So feeling really good about the two years, 2020 and '21 in that -- in that business line. We've also seen some incremental activity both volumes and price in our FERC [ph] pipelines, as well as our storage assets. So that's been very good as well for 2020.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thank you. And then one last one, if I could sneak it in. Just with your net zero emission goal, do you see hydrogen playing a role for DTE over the next several decades, as you -- you work to achieve that?

A - Jerry Norcia {BIO 15233490 <GO>}

We're starting -- we're really starting to probe into hydrogen as a possibility. With our very large network of pipelines and storage assets, hydrogen could become a very interesting way to store renewable energy in our pipeline system, the storage assets, as we -- as you can blend significant amounts of hydrogen into the natural gas stream. But it's something we're starting -- we're starting to think seriously about and also thinking about some early opportunities to commercialize our potential.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thank you.

Operator

And your next question comes from the line of Jonathan Arnold with Vertical Research. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Quick question. Dave, you mentioned some of the drivers in DTE Electric. Any chance you could quantify the benefit you had on the non-qualified plans and maybe the tax item?

A - David Ruud {BIO 16089859 <GO>}

Yeah. Sure. Yeah the non -- the non-qualified plan, again that was -- we made up most of what we lost in the first quarter there. And so when you look at that versus 2019, it was -- it was around a $10 million difference upside for us. And then the one-time item that was related to our property tax settlement from prior years with the local municipality and that was around 15 million after tax net benefit and some of that benefit will continue for us into the future as well.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Great. And then just, I noticed that you guys pulled out like 15 million or so of sequestration costs from your operating earnings, which I was -- I guess a little surprised, given how well you're doing on bringing in the savings and the top line has been coming in ahead. So just is that -- are you -- is that because you're expecting eventual deferral treatment or some other -- what's the thinking there?

A - David Ruud {BIO 16089859 <GO>}

Our goal there is really just to give investors a clear view of the quarter. And so we -- we do have some COVID costs that are ongoing, and we know that, that will continue and Jerry talked about those things like PPE, enhanced cleaning. However, we did have some costs that were very one-time and non-recurring. So in the very early stages of the breakout in Southeast Michigan, we're really trying to ensure that we kept our employees fit and safe, as we were trying to learn more, so list of things like hotel stays to keep our team safe. So we -- we realize those would be things that wouldn't be recurring. So we wanted to break those out separately. And they were -- they are just not -- not cost either that we were discussing as deferrals with commission on those -- on those costs either.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. So -- so that just was a Q2 discrete item?

A - David Ruud {BIO 16089859 <GO>}

Yes. Yeah, very, very discrete.

Q - Jonathan Arnold {BIO 1505843 <GO>}

And now on the subject of deferrals, I know the commission approved (inaudible) deferral. Where do you stand on deferral of other items and just how you treated that at this point?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I'm -- there was an order of (inaudible) from the MPSC the other day to left it open that we could -- we can look at tracking some of these costs. And I think that was a great example of how the MPSC is willing to collaborate with us and ensure just a constructive environment here. So they haven't approved the deferral of any additional costs for COVID, but they left that opportunity open for us to make informational filings if -- if that's necessary. But I think as you're -- as you're hearing with the warm weather and the tailwinds from the economic response plan, I think they realized, we may be able to avoid these additional deferral costs as well.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Yeah. Sure. Okay. And then can I just one -- I know you're going to defer the bad debt. But could you -- are there any data points you can share with us on non-payment just sort of relative to, I guess, same time of prior year to ex-out seasonality. And just any thoughts about whether -- to what extent that's been mitigated by some of this enhanced unemployment [ph] benefit and just what your thoughts are about those trends going forward as well?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So Jonathan, I'll take that one. At the highest level, we're watching bad debt expense and arrears on a daily basis. And interestingly, we're preparing for a much more significant impact year-to-date but that has not happened. We're just not seeing a significant movement in bad debt expense and arrears right now. We're seeing modest movements even on a seasonal basis.

And we attribute that much to what you described, which is, there has been significant amount of government stimulus that's been brought into people's hands to a notice [ph], so that they can pay their bills and they continue with their business operations even. So that's been quite helpful. And that's been very different than the last time we went through an economic crisis, where we saw our residential customers and small businesses deeply impacted and that turn into bad debt expense and arrears. Now going forward, we obviously remain in a conservative posture, as well as we have a deferral account that will help accommodate the protections for our customers going forward, if that was to change in the future.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Perfect. Thanks very much guys.

Operator

And your next question comes from the line of Durgesh Chopra with Evercore. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, guys. Thanks for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

So I have two. Just quickly on the quarter, and sorry if I missed this. But can you quantify for us, one, how -- how much benefit the weather was versus the plan; and then what of the 120 million target did you achieve in Q2?

A - David Ruud {BIO 16089859 <GO>}

Sure. I can take the weather part -- yeah. We do break out weather impact in the deck. So if you're on slide 21, so you can see Electric, we saw 18 million of operating earnings favorability in the quarter, and it got pretty much to flat on weather for the year. And relative to 2019 that was about 31 million favorable. We also saw some favorability at Gas because it was cooler in the first part of the quarter that was about 10 million. But for -- for Gas, we're still -- we're still down for the year on weather overall because we had a really warm first quarter.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. And I am sorry, I missed that. Any sort of color in terms of what of the 120 million do we get in the Q2?

A - Jerry Norcia {BIO 15233490 <GO>}

We're tracking right on plan with each and every week. It's something that we track. So we're delivering the 120 on a ratable basis for the whole year at this point in time.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Perfect. Thanks. And just one quick follow up. In terms of upstream bankruptcies, I'm not sure if Chesapeake is actually a customer of yours or not, but any implications on existing pipeline contracts or any implications on just future growth plans, as a result of those?

A - Jerry Norcia {BIO 15233490 <GO>}

So Chesapeake is not a customer of ours. So that will have no impact on our plans. As far as our other counter-parties, they all appear to be in really good shape and are delivering on their -- on their commitments to us contractually. So we -- we feel pretty good about the posture that our shippers are in at this point in time.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. Thank you, guys. Congrats on a -- on a very solid quarter. Thank you, again.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

A - David Ruud {BIO 16089859 <GO>}

Thank you.

Operator

And your next question comes from the line of Sophie Karp with KeyBanc. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

(Technical Difficulty) for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Hi, good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

Couple of -- yeah, hi. Couple of questions here actually. First correct me if I'm wrong, but I think in the past, your strategies has been that when you had gains due to weather you would dial up your O&M a little bit and vice versa to kind of shape your O&M spend with weather a little bit. Is that different now because of -- all of these contingencies due to COVID, and are you effectively banking the weather benefits to kind of protect the earnings against COVID, and would that create far greater O&M needs down the road. Just -- I guess, that's a long way of asking that.

A - Jerry Norcia {BIO 15233490 <GO>}

So I think it's a great question. We have not walked away from our investment lean plans, as you described. So in times of favorability, we move to an invest mode, where we start to invest in maintenance that what otherwise have been done in subsequent years or we go lean. So initially here we went lean in a significant way, sort of a deep lean if you'll of $120 million target that we have, and we're holding on to that right now. And also starting to think about how we can use some of the weather favorability to create pull forwards for 2021 and create contingencies for 2021. So there is a lot of pieces here that are coming together sort of our current lean actions that are tracking to plan, as well as weather favorability that we're seeing that we'll likely use to create headroom and contingencies in 2021.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. Thank you. And my other question is, could you maybe walk us a little bit through the cash flow impact of the alternative rate strategy in the Electric, when you're skipping the rate case, and you have some accounting -- you had an accounting order that allows you to protect earnings, which I think I get. But how -- how are you supporting your cash flows, what are the mitigating factors there during that time?

A - David Ruud {BIO 16089859 <GO>}

Sure. I can -- I can take that. You're right. As we accelerate the amortization of that ADIT regulatory liability of about 108 million, that -- that will give us the earnings without the cash. But part of the offset of that was our notification that we're going to file for securitization filing early in 2021 that would include some of the -- some of the securitization for our tree trimming surge and the net book balance in our River Rouge. So that will help us remain roughly in the same cash position overall, as we get that securitization.

Q - Sophie Karp {BIO 19699392 <GO>}

So same cash position versus 2020?

A - David Ruud {BIO 16089859 <GO>}

As we would have been in '21 with equivalent [ph] increase in rates.

Q - Sophie Karp {BIO 19699392 <GO>}

Okay. Thanks for clarifying that. Thank you. That's all I have.

Operator

And your next question comes from the line of James Thalacker with BMO Capital Markets. Please go ahead.

Q - James Thalacker {BIO 1794957 <GO>}

Thanks for the time, guys, and good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

Q - James Thalacker {BIO 1794957 <GO>}

I don't want to beat a dead horse here because I think Shar and -- and Julien asked the question. But just as you're talking about the $120 million contingency, Jerry, I thought you said that you're looking at that sort of on a ratable basis even though you probably started putting that really into full -- full mode probably starting in March. Is that correct?

A - Jerry Norcia {BIO 15233490 <GO>}

We started in March. That's correct. We started a deep way in March to build that $120 million.

Q - James Thalacker {BIO 1794957 <GO>}

So as we think about through the rest of the year, do you still think that, that 120 is going to be sort of ratable from that point through the end of the year in terms of how we're thinking about O&M offset I guess partially by probably some advance spending as long as the weather stays sort of favorable as it has been so far?

A - Jerry Norcia {BIO 15233490 <GO>}

That's the right way to think about it. Yes.

Q - James Thalacker {BIO 1794957 <GO>}

Okay. And then just the last question on that. I mean, obviously adapting to COVID created a lot of different ways for work processes and people working at home, and I know that you're feeling comfortable, I guess into '21 on the O&M side. But if we think about that 120 outside of any sort of pull forward from weather from a sort of a new practice or COVID adaptation, how much of the 120 do you think is kind of ongoing, as we look out to '21, '22 just from changing the way that you sort of run your business?

A - Jerry Norcia {BIO 15233490 <GO>}

James, we've got a team sort of dedicated to the exact topic, and we're -- we're in the middle of trying to understand how much of that 120 can parlay into '21 and beyond in a long term basis. So we're definitely going to try and capture as much of that as possible. I don't have a definitive answer for you today. But I think as the year goes [ph] on, we'll have more and more answers on that as to how much that we build in to our future plans that will help customer affordability, as well as help advance some of our capital plans there that are necessary for our customers.

Q - James Thalacker {BIO 1794957 <GO>}

Got it. And do you think you'll have a little more around, I guess, I know the early look at EEI tends to be a little bit higher level, but do you think at EEI or -- you'll have a little bit more on that or is this going to be more of a 4Q when you sort of roll out the full plan?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say at EEI, we'll have more -- more information on this.

Q - James Thalacker {BIO 1794957 <GO>}

Okay. Great. Thank you for all the time.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

And your next question comes from the line of David Fishman with Goldman Sachs. Please go ahead.

Q - David Fishman {BIO 20818121 <GO>}

Good morning. Thank you for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - David Fishman {BIO 20818121 <GO>}

Just a question on the functionality of the 30 million to 40 million bill relief [ph] during June, July. Is that primarily a one-time kind of margin decrease in 2020 and then that kind of reverts back in 2021 or is that mostly just a pass-through of lower fuel costs?

A - Jerry Norcia {BIO 15233490 <GO>}

That was a pass through, David. I mean, that was -- fundamentally that's what it was for July and August. We were seeing favorability in our power supply recovery factor. And so we tried -- decided to pass that on to our customers during the peak usage months and we -- that was very well received by the commission, as well as our customers.

Q - David Fishman {BIO 20818121 <GO>}

Okay. That makes sense. And then regarding LEAP. Could you just remind us the initial expectation for the commercial operation date was that the end of the third quarter versus kind of August 1st now. And then just also if you're able to disclose about how much under budget did it come -- come in?

A - Jerry Norcia {BIO 15233490 <GO>}

We -- we're expecting that to come in online sometime in September, so middle to late September, and we've been able to pull that towards the August 1st and the benefits of that will flow through our -- our financial plans. Capital was under budget. We haven't disclosed that just yet, as we work through with our partners to make that understood and address all of that.

Q - David Fishman {BIO 20818121 <GO>}

Okay. So is that then factored into the final payment that occurs. And is that due on kind of COD?

A - Jerry Norcia {BIO 15233490 <GO>}

It is. There is some benefits that are accrued to both parties depending on the final cost results. So we're working through all of that. But I can say this, it's certainly beneficial to us and beneficial to our customer.

Q - David Fishman {BIO 20818121 <GO>}

Okay. Great. And then -- just the last thing from me. I just want to clarify a prior comment that I think I heard. So just talking about clean hydrogen, I know obviously it's extremely early, but is it fair to say that or are you indicating that GSP and maybe P&I's existing infrastructure might have a logical transition to using some clean hydrogen versus all natural gas at some point in the future?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say all of our pipes business both the utility pipes, the utility has significant transmission and storage asset, as does GSP or non-utility entity in that business. And I think, clean hydrogen, like you said, it is quite some time away, but we're starting to look at ways that perhaps we could start introducing products and services into both those entities.

And then, as it relates to P&I, we're already in the renewable natural gas business. So we're developing a great understanding of that product, as we move forward with projects, as well as we're looking at potential opportunities for carbon sequestration. So I would say, the last two hydrogen and sequestration are early. But we're certain to work more deeply to understand what potential market opportunities there could be in the near term and near -- and medium term.

Q - David Fishman {BIO 20818121 <GO>}

Perfect. That makes lot of sense. Thank you for taking my questions, and congrats on a great quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

And your next question comes from the line of Andrew Weisel with Scotiabank. Please go ahead.

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>}

Appreciate all the detail -- appreciate all the details you've given so far. I've only got one quick one here. What are your latest thoughts on wind versus solar in Michigan. I think you said the increment of 350 megawatt includes both in the past, you've been talking more about solar being where you'd see the majority of additional megawatts added. So how -- how do you think just generally speaking about the opportunity for wind going forward?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we see our opportunities, Andrew going forward. I think you'll see in our later filings this summer, as it relates to our voluntary renewables program, you'll see that will be dominated by solar. We don't see much wind in the future at this point in time just for economic reasons. Solar costs have come down significantly. The tax credits associated with that business also provide significant competitive advantage, as it relates to -- to wind. So we see most of our renewable development in the future being solar. We've sold about 700 megawatts of voluntary renewables which is well above what we're forecasting. And so you'll see our next filing later this summer try to address some of those supply needs that we've, which will be approximately 400 megawatts.

Q - Andrew Weisel {BIO 15194095 <GO>}

And I'm sorry, that's in addition to the -- to the 350 megawatts that just got it approved?

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct. We'll be seeking approvals for another 400 megawatts of renewables later this summer.

Q - Andrew Weisel {BIO 15194095 <GO>}

Excellent. All right. Thank you very much.

Operator

Thank you. And this concludes our Q&A session for today. I will turn the call back over to Jerry Norcia for closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you everyone for attending this morning. As you can see, we've had a great first six months of the year and setting up quite nicely for our results in 2020 and starting to build for our 2021 plan. So thank you again. And I hope to see you soon.

Operator

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

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