Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Scotiabank
- Anthony Crowdell, Mizuho
- Durgesh Chopra, Evercore
- Insoo Kim, Goldman Sachs
- James Thalacker, BMO Capital Markets
- Jeremy Tonet, J.P.Morgan
- Jonathan Arnold, Vertical Research
- Julien Dumoulin-Smith, Bank of America
- Ryan Levine, Citi
- Shar Pourreza, Guggenheim

Presentation

Operator

Good day, and thank you for standing by, welcome to the DTE Energys' Second Quarter 2021 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) I would now like to hand the conference over to your speaker today. Barbara Tuckfield, 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 reference to forward-looking statements.

Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix. With us this morning are Jerry Norcia, President and CEO and Dave Ruud, Senior Vice President and CFO.

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

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Barb and good morning everyone and thanks for joining us today. I hope everyone is staying healthy and safe. This morning I'll recap our performance for the Second Quarter then Dave will provide a financial review of the quarter and wrap things up before we take your questions.

So let's start on Slide four. We are making great progress this year at DTE, for our team, our customers and our communities positioning us to deliver for our investors. This progress has produced a strong second quarter and positions us well for continued growth. Our distinctive team of 10,000 plus employees continues to be recognized for our engagement by Gallup with our ninth consecutive Great Workplace Award. Continue to build on this strength with our focus on diversity, equity and inclusion to create an even better workplace, for all our employees, where everyone feels valued, welcome and able to contribute their best energy.

Our company celebrated Juneteenth together last month, with a series of virtual meetings. We pay tribute to this important day with local community partners. A number of employees offered reflections on what the day means to them personally. Overall, it was a great way to come together and honor the significant holiday. We understand all people thrive and succeed when they feel included and welcome. We continue to focus on service excellence for our customers and delivering clean, safe and reliable energy as we continue our clean energy transformation. DTE Electric received approval from the MPSC to further expand the voluntary, renewable program, MIGreenPower while also making it even more affordable, including increased access for low-income customers.

Additionally, we partnered with Ford Motor Company to install new rooftop solar and battery storage technology at the, Ford Research & Engineering Center. The array includes an integrated battery storage system and will be used to power newly installed electric vehicle chargers, this can generate over 1100 MWh of clean energy. We also continue to support the communities where we live and serve. We're also recognized by Points of Light for the fourth consecutive year, as one of the Civic 50, this award highlights DTE as one of the top 50 community-minded companies nationwide and corporate citizenship. We also launched Tree Trim Academy to create 200 high paying jobs in Detroit. DTE has need for tree trimmers, the community has a need for good high-quality jobs.

That will also help us continue to improve electric reliability as trees account for over 70% of our customer outages. On the investor front, we completed the spin of the Midstream business. Now DT Midstream is a standalone company. And DTE Energy is a predominantly pure playing utility with 90% of operating earnings coming from our utilities.

The transaction went very smoothly and was well, received by all stakeholders. We didn't miss a beat on a very strategic transaction and many said we made it look easy. Many thanks to the DTE team and our advisors that made this effort a great success for our employees and our investors. We delivered a strong second quarter with earnings of $1.70 per share, and we are raising our 2021 operating earnings guidance and continue to pay a strong dividend.

Let's turn to Slide five. DTE is continuing to deliver successful operating results. At DTE Electric we made another significant step toward our goal of reducing carbon emissions as we retired River Rouge Power Plant in the second quarter. For over 60 years, the River Rouge Power Plant, delivered safe, reliable and affordable energy to communities throughout Southeast Michigan. River Rouge is one of the three coal-fired power plants DTE is retiring by the end of by of 2022, which is an integral part of our company's clean energy transformation. We continue to look at ways to accelerate our coal fleet retirements and potentially file our updated IRP before September of 2023, to continue to expand on our voluntary renewable program which is exceeding, our high expectations. For the First Quarter, we the announced the commitment of new customers to MIGreenPower, including the State of Michigan, Bedrock and Trinity Health.

During the second quarter, we signed up a number of new large customers, including Detroit Diesel, which is now one of our largest voluntary renewable customers. The program continues to grow at an impressive rate. So far, we've reached 950 MW of voluntary renewable commitments with large business customers and approximately 35,000 residential customers. We have an additional 400 MW in a very advanced stages of discussion for future customers. MIGreenPower is one of the largest voluntary renewable programs in the nation and helps advance our work toward our net zero carbon emission goal while helping our customers, meet their decarbonization goals.

We have made progress with our expedited Tree Trimming program, which is greatly improving reliability for our customers and had received Michigan Public Service Commission approval to securitized the tree trimming cost, along with cost associated with the River Rouge Power Plant, retirement.

At DTE Gas, we are on track to achieve net zero greenhouse gas emissions by 2050. To begin the second phase of construction at our major transmission renewal project in Northern Michigan in June. The project includes the installation of a new pipeline, as well as facility modification work, which will reduce the risk of significant customer outages.

Project is on track to be in service by the first quarter of next year. Last quarter we announced our new CleanVision Natural Gas Balance program. This program provides the opportunity for customers to purchase both carbon offsets and renewable natural gas to enable them, to reduce their carbon footprint. We are proud how fast the program is growing early we would have over 3,000 customers subscribe and we are looking forward to seeing it become as successful as our voluntary renewable program at DTE Electric. Under Power and Industrial business, we continue to add new projects, as we began construction on a new RNG facility, our large dairy farm in South Dakota.

This will be P&I's largest dairy RNG project to date. Project will directly inject RNG into the Northern natural gas system for sale in the California Transportation Fuels Market. Facility is expected to be in service in the third quarter of 2022. There are also an advanced discussions on several new industrial energy and RNG projects and will provide updates on these as they progress.

P&I was also recognized by the Association of Union Contractors with the 2020 Project of the Year award to the Ford Dearborn Cogeneration Project. Overall, I am extremely proud of the team's accomplishments year-to-date and I'm looking forward to more successes in 2021 and beyond.

Now, moving on to Slide six. As I said, we've had a very strong start with 2021. We are raising our operating earnings guidance midpoint from $5.51 per share to $5.77 per share. Moving our year-over-year growth and operating EPS guidance from 7.4% to a robust 12.5%. We are able to use some of this favorability, position the company to continue to deliver in future years. We mentioned in Q1, we were deep into planning for 2022in a great level of detail. With all of this work, we feel great about achieving a smooth 5% to 7% growth trajectory into 2022 and through the five-year plan. You are not going to see any surprise from us in our growth rate in 2022, in spite of the area (inaudible) and the converts coming there [ph]. 90% of our future operating earnings will be from our two regulated utilities but we have a large investment agenda, $17 billion of capital investment in our five-year plan, focused on clean energy and customer reliability. Overall, we feel very confident with our performance in 2021 and our future operational and financial performance.

Now, I'll turn it over to Dave to discuss DTE's financial performance. Dave, over to you.

Dave Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone. Let me start on Slide seven to review our Second Quarter Financial Results. Total operating earnings for the quarter were $329 million, this translates into a $1.70 per share. You'll find a detailed breakdown of EPS by segment, including a reconciliation to GAAP-reported earnings in the appendix. I'll start to review at the top of the page of our utilities.

The second quarter was a really warm quarter for us here in Michigan. In fact, it was a seventh warmest on record. DTE Electric earnings were $238 million for the quarter, this was $19 million higher than the second quarter of 2020, primarily due to higher commercial sales, rate implementation and warmer weather offset by non-qualified benefit plan gains that we had in 2020. As we mentioned in the first quarter call, we've taken steps to reduce the variability of these investments going forward.

Moving on to DTE Gas, operating earnings were $7 million, $4 million lower than the second quarter last year. The earnings decrease was driven primarily by the warmer weather in 2021, offset by new rates. Let's keeping with the Gas Storage and Pipelines business on the third row. Operating earnings for GSP were $86 million, which is $16 million higher than the second quarter 2020, driven primarily by the LEAP pipeline going into service and strong earnings across the pipeline segment.

On the next row you can see our Power & Industrial segment, operating earnings with $34 million. This is a $9 million increase in second quarter last year due to new RNG projects beginning operation. On the next slide you can see our operating earnings at our Energy Trading business were $21 million, which is $16 million higher than second quarter earnings last year due primarily to strong performance in the gas portfolio. Year-to-date, through the second quarter, this position us positive to our expectation, in our original guidance for the year. Finally, Corporate & Other was unfavorable $22 million quarter-over-quarter, primarily do the timing of taxes and higher interest expense. Overall, DTE earned a $1.70 per share in the second quarter of 2021, which is $0.17 per share higher than 2020.

Moving on to Slide eight. Given a strong start to the year, we were able to use this favorability to position ourselves to continue to deliver for our customers and investors in future years. And, we are also increasing our 2021 operating EPS guidance midpoint, $5.51 per share to $5.77 per share. The increasing guidance is due primarily to warmer than normal weather, sustained continuous improvement and uncollectible expense variability at DTE Electric, higher REF volumes at P&I and a stronger performance energy trading due to the realization gain through a small long, physical storage position during extreme cold weather event in Texas in the first quarter.

In the third quarter, we're seeing additional sales upside for electric compared to our plan and higher than planned REF volumes at P&I. We're continuing to explore opportunities to support future years through invest strategy and to support future customer affordability. As you can see on the slide, there is no gas storage and pipelines segment in our operating guidance for this year. The GSP segment will be classified as discontinued operations starting in the third quarter.

Let's turn to Slide nine to briefly discuss our balance sheet and equity issuance plans. We continue to focus on maintaining solid balance sheet metrics . Due to our continued strong cash flows DTE is targeting no equity issuances in 2021 and as minimal equity needs in our plan beyond the convertible equity units in 2022. Due to strong investment-grade rating and targeting FFO to debt ratio of 16%. The proceeds from the spin-off of DTM, we're retiring long-term parent debt of approximately $2.6 billion after debt breakage cost. These were NPV positive transaction and immediately EPS accretive, as we were able to repair a higher interest rate debt to support our current plan and to deliver our 5% to 7% operating EPS growth rate.

Now wrap up on Slide 10 and we open the line for questions.

We feel great about our second quarter accomplishments and we are confident in achieving our increased 2021 guidance and continue delivering our long-term 5% to 7% operating EPS growth rate. Our utilities continue to focus on our infrastructure investment agenda, specifically investments in clean generation, and investments to improve reliability and the customer experience. We continue to focus on maintaining solid balance sheet metrics and are targeting no equity issuances in 2021. In closing after executing a successful spin of our Midstream business, DTE continue to be well-positioned to deliver the premium total shareholder returns that investors have come to expect over the past decade, the strong utility growth and a growing dividend. With that, I thank you for joining us today and we can open the line for questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions). Your first question comes from the line of Shar Pourreza with Guggenheim.

Q - Shar Pourreza

Hey, good morning guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Shar.

A - Dave Ruud {BIO 16089859 <GO>}

Hi Shar.

Q - Shar Pourreza

So just on the IRP, Jerry kind of reference in your prepared. Your peer obviously has an aggressive decarbonization plan out there, probably one of the more aggressive plans. Can we maybe just get a sense on how you're thinking about your upcoming IRP and sort of not front [ph] on the process? But can you get out of all your coal prior to the 2030?

A - Jerry Norcia {BIO 15233490 <GO>}

We're looking Shar. We're looking at how we can accelerate our coal retirements. You know, we've started with a larger position in our coal fleet and our self-generation fleet. So, we're-- we are looking very closely at how we can accelerate all of these retirements, a prior to 2040. So your -- you'll recall that are -- in our prior IRP, we are retiring all of our coal by 2040. So we're looking at acceleration scenarios to pull that forward and without mentioning, in past discussions, we will update you likely at the end of the year or early next year as -- what those plans may look like. And we're spending a lot of time with various stakeholders through the summer, including our board, having those conversations and trying to balance the interests and acceleration and of course, affordability and reliability.

Q - Shar Pourreza

Got it. And just Jerry, can EEI be the right podium to disclose the updated plan?

A - Jerry Norcia {BIO 15233490 <GO>}

It'll either be there Shar, early in the New Year in front of the (inaudible) that's the range of timing that we're looking at right now. We will get a little tighter on that as we go forward.

Q - Shar Pourreza

Got it, got it. And then just as a follow-up sort of between kind of already strong rate based growth at DTE Electric and Gas, which obviously exceeds your earnings guidance growth rate.

And you have the potential to accelerate decarbonization with the updated IRP coming. And I guess, how does all this kind of play into your 5% to 7% growth rate? Obviously I understand you're taking the conservative bend here, but could we see some incremental upside here in time especially if you decarbonized faster than what's in your current internal planning assumptions?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we're looking obviously, we're in the middle of all of that analysis and as you mentioned Shar, typically we update our capital forecast of EEI. For our five-year outlook and as we start to build in these earlier retirements, there could be impact on the back end of that plan, as you recall, the back end of our plan, return more to the average in terms of rate based growth and earnings growth of the two utilities. So we're -- likely it'll be impactful in the back end of that plan. So more to come on that Shar, but we're working through all those details now.

Q - Shar Pourreza

All right. Terrific. Thanks, guys. That's all I had. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

The next question is from Jeremy Tonet with J.P.Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Dave Ruud {BIO 16089859 <GO>}

Hi Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I know that GSP is now discontinued so obviously not a focus going forward in the same way, but just wanted to better understand, I guess what was happening here? If I look at the results so far, it seems like GSP has put up 56% of the high end of the guidance already. And so, I was just wondering if you could expand a bit more on what specifically GSP did to kind of exceed expectations in the first half or if there was something baked into later in the year that was going to weigh down? Just trying to understand a bit better what was happening there?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we can comment on the first half and I know the pipeline company will have their earnings call out here later, I think early next month. So I'm sure they'll comment on that, but what we can talk about is the, the first half of the year and we just saw favorability in all the platforms across the board -- our southern platforms and our northern platforms.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. I mean where those sustained or is anything kind of one time in nature, that was a positive benefit?

A - Jerry Norcia {BIO 15233490 <GO>}

Again, it was a pickup in activity and value across all our platforms, both in the Appalachia platforms and the Haynesville platform. I think, in terms of forward looking, that'll be more appropriate for DTM to describe.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. And maybe just kind of pivoting over to the electric utility, some really strong results there, I'm just wondering if you could provide a bit more color with regard to low trend recoveries there, it seems like commercial sales were coming better. But just wondering if you could provide a little bit more detail on how things materialized versus your expectations, versus your guidance for the segment and how you see that kind of trending?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, you want to take that.

A - Dave Ruud {BIO 16089859 <GO>}

Sure. Yeah. First, if you look at quarter-over-quarter that we have been there, you can see that was way up and that was especially commercial industrial that was really because we were comparing back to the worst period of the pandemic, so quarter-over-quarter, we saw commercial industrial way up. Interestingly we saw residential stayed pretty flat quarter-over-quarter. That's interesting because last year with people working from home and we saw a residential load running at an average about 8% higher than we would have expected pre-pandemic. And this year so far, we're seeing that continue even though there has been some return to work, but we still see that we're seeing this favorability at residential and that's what's driving some of the favorability. So, we expected it to reduce more but at this point it's pretty sticky. So we're going to be watching this closely to see how it plays out and how it can impact really customer affordability going forward if it's remain sticky.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. (multiple speakers)

A - Dave Ruud {BIO 16089859 <GO>}

Yeah, I would say commercial load. I mean that's come pretty much all the way back from what to -- what we would have expected and we -- at the kind of the height of the pandemic. We thought we'd see some more bankruptcies and closures in the commercial and we really haven't seen that. So, we've seen our commercial load really come back to as expected. Industrial load was cut -- was coming back and pretty much came back, but that has some variability in it, due to some of the instability really or the challenges at the auto plants right now with the chip shortage is they're running a little more sporadically. Really it's been a great return to load and then the residential remains really sticky for us.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful there. If I could slip in one more on RNG, just wondering if you could expand a little bit on how large, do you see this business kind of growing over time? It seems like there's more of a focus there. And how do you see the growth rate of that business kind of comparing to the rest of the DTE?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, the non-utility business will make up no more than 10% of overall operating earnings for the company. So the growth will be modest compared to the growth that we're seeing under two utilities. We're planning to put $17 billion to work over the next five years in our two utilities and somewhere between a $1.5 billion to $2 billion to work on a non-utility businesses. So it'll be modest levels of investment. We don't need a lot of income growth from that business. So we're being really picky and discerning about the type of projects that we invest in RNG and where we're seeing three to four year paybacks, simple cash paybacks and unlevered IRRs after tax in the teens. So that's what we're, that's what we're going after. So not a lot of pressure to grow there. And so we're being very discerning about our growth projects.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. I'll leave it there. Thank you.

Operator

Your next question is from Julien Dumoulin-Smith with Bank of America.

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

Hey, good morning, team. Congratulations, on the results.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Julien. Good morning.

A - Dave Ruud {BIO 16089859 <GO>}

Good morning, Julien.

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

Absolutely quick question. I think you alluded to it a couple times and I think Jeremy might have been trying to get after this, but you've alluded to a smooth trajectory here, a 5% to 7% in the '22. Just want to make sure that sort of on balance net of all these items for the ballpark we should still be assuming, right?

A - Jerry Norcia {BIO 15233490 <GO>}

Just want to (multiple speakers) right Julien, we're going to be -- typically we target the midpoint of our growth rates, right? That's how we plan for our business. That's how we build contingency plans. And so, we're going to deliver this year.

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

Excellent and perhaps even more importantly here as you think about layering in these incremental items, be it be IRP at some point or frankly some of the renewable opportunities that are more on voluntary side and/or some additional as you say, perhaps late stage, your advanced stage conversations on the industrial and RNG side. What's that -- what's that outlook, the timeline here? Some of the IRP updates may be beyond the five year or do you think that some of that actually accrues the near term? I would presume the voluntary renewables and the non-utility businesses to be more in that five-year period.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, the voluntary renewals update and I will provide in the fall will certainly play into the Five-Year Plan. I would say the IRP work that we're doing, could come into The Five-Year Plan or late latter part of The Five-Year Plan, but certainly that will be a good story beyond the five year plan as well.

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

Got it. And maybe clarify your earlier comment about sort of showing the normalization in the rate based growth trajectory, when you commented to Shar. Is that beyond the five years that you're talking about or is that even within the five years that you kind of alluding to -- to potentially seeing a more sustained current level rate base growth rather than that normalization trend?

A - Jerry Norcia {BIO 15233490 <GO>}

What we are seeing Julien, is our growth rates in our operating earnings for our two utility is higher than our average that we've advertised, right? The 9% at the gas company and 7% to 8% at the electric company in the first couple of years of our Five-Year Plan and that's helping us deliver that smooth EPS growth rate that we've described. And then it returns more to the average in the out years of the plan as we have -- as we described.

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

Right. So, despite the long-term nature of some of the IRP on balance we could see some of that really accrued to the back half of this 5 year plan regardless?

A - Jerry Norcia {BIO 15233490 <GO>}

That's possible. Early, too early to tell, but certainly possible.

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

Excellent. All right. And just again to come back to Jeremy's quick clarification there on the, the RNG side. Again, your 10% you're sticking with it, right? So, we should really be thinking about scaling it and sizing it within that bucket, right?

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct.

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

Excellent. Thank you so much for the clarifications here. All the best.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Julien.

A - Dave Ruud {BIO 16089859 <GO>}

Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

The next question is from Insoo Kim with Goldman Sachs.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. My first question on the financing side of things, when you think about the five-year growth plan and beyond 2023? How should we think about potential equities in the back half of that plan? And what's embedded in your guidance?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave?

A - Dave Ruud {BIO 16089859 <GO>}

Right now, we're -- you have seen we have given the guidance through the three years which only has the only acquisitions as well as converts to come in '22. You know, as we look out of the five year plan -- our goal is going to be to continue to minimize the acquisitions really and that's how it fits within the plan that we're looking at right now.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. So based on the base that the current CapEx plan, you're looking at more moderate level of EBIT [ph]. It's kind of like what you're seeing on the 2023 front.

A - Dave Ruud {BIO 16089859 <GO>}

Right.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it and then just going back to RNG a little bit, appreciate the earnings mix that's going to have in the overall portfolio. When you talk about the strong returns that you're talking about, are you seeing increased competition now, with a lot of other players focused on that and as you know you look out at potential new projects, are you seeing those translating into a tougher returns on a comp basis?

A - Jerry Norcia {BIO 15233490 <GO>}

You know what we're seeing is with the level of investment that we have to make which is a couple of RNG projects a year. Couple of dairy farms a year is another way to think about it. Not really having trouble originating greenfield where we've seen things get a little more frothy [ph] as when assets are up and running. People are paying a lot of money for these assets that are up and running private equity and other types of investment vehicles. So, but on the origination front greenfield -- we're more able to get the returns we want, get the projects that we want.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you so much.

Operator

Your next question is from Jonathan Arnold with Vertical Research.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jonathan.

A - Dave Ruud {BIO 16089859 <GO>}

Hey, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

But on the trading in the quarter which you have said was gas portfolio. Is that was that really yeah, this sale of storage out of the -- is it related to the winter storm event or was that favorability more in the first quarter and this was discontinued good performance, just curious, what's driving that?

A - Dave Ruud {BIO 16089859 <GO>}

And this was discontinued good performance of the trading group in the gas portfolio. We can say, the -- what gave us the confidence to raise the guidance was the favorability we had from that small physical storage position, that gave us the gain during the first quarter, during that cold weather in Texas. For our expectation going forward in future years is that -- will be more in line with our original guidance when we don't have those kind of unexpected one-time things.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. And then just some back to the growth rate of the comments about to -- Jerry just to be clear. You, you're talking off of the original 2020, midpoint, right, which was I think 513 [ph]? And I just want to be sure that and that -- is that the number of which you're intending to show smooth 5% to 7% growth or, and we should think of sort of this Q21 favorability is --which kind of puts you above that range, but you still are using that as the base. I just want to be clear about that.

A - Jerry Norcia {BIO 15233490 <GO>}

We're using the -- you are correct, we're using the original 2021 guidance that we provided as the basis for our growth rate.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Is that '21 or 2020.

A - Jerry Norcia {BIO 15233490 <GO>}

2020.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay.

A - Jerry Norcia {BIO 15233490 <GO>}

But it would be similarly smooth through '21 because we targeted midpoint for each of the years, in terms of original guidance from the starting point.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, so we should just be calibrating off of original guidance in both cases, and that's --.

A - Jerry Norcia {BIO 15233490 <GO>}

Correct.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thank you.

Operator

Your next question comes from line of Durgesh Chopra with Evercore.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, team. Thanks for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Dave Ruud {BIO 16089859 <GO>}

Morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

You have answered the -- you have answered them most. Good morning. Maybe just update us on the recent, what's the most latest on, the gas rate case front. And then the timing of the electric rate cases, is that still sort of late this year?

A - Jerry Norcia {BIO 15233490 <GO>}

So, the -- on electric rate case, yes, it's still late this year no earlier than October of this year that we will file. And on the gas case, we've engaged in conversations with interested parties, to actually try and move the case toward some form of settlement settlement, but we're feeling pretty good about that in terms of how that case is progressing and it's a final outcome.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. And then, just a little quick clarification and you sort of address the demand trends pretty strong quarter Q2 '21 versus Q2 '20. Obviously if there are concerns around this Delta variant anything sort of that is striking or sort of material for us to talk about anything that you're seeing in your territory and any cause of concern as it relates to Delta variant?

A - Jerry Norcia {BIO 15233490 <GO>}

We are not at this point. Certainly the large manufacturing outfits are starting to take actions to make sure that the Delta variant doesn't impact their operations, things like masking and social distancing starting and we reintroduce somewhat in preparation for potential Delta variant surge here in Michigan. But we're not seeing any thing that puts any of our margin at risk at this point in time.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. Thank you guys. Great quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

The next question is from Andrew Weisel was Scotiabank.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hey, good morning everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Andrew.

A - Dave Ruud {BIO 16089859 <GO>}

Andrew. (multiple speakers)

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi. A lot of my questions were answered, appreciating the conservative and given that you've grown 12.5 % this year and grew 9%. Are you beating up by 9% in 2020, but we'll stick with 5% to 7% for now. Just to clarifying ones on 2021 outlook. First of all, does the updated guidance, reflect July weather?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave?

A - Dave Ruud {BIO 16089859 <GO>}

Yeah, we do take into account weather into account, but there hasn't been too much, too much weather in July, yes.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, then on cash flow -- excuse me. I see you updated the outlook from cash from operations to reflect the Midstream spin-off. What about the underlying DTE business? Looks like cash has been stronger than expected since you're pointing to no equity needs this year. Of that $300 million reduction, can you talk about how much was Midstream and if there was any change to the base business?

A - Dave Ruud {BIO 16089859 <GO>}

In the guidance update, that was all taken out the second half a Midstream. And you're right, we have seen some strength too. And I we were coming in a little bit above our plan in cash so far this year, mainly due to the strength in operating cash flows from Electric and from some of the other businesses too.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Then that strength is not reflected in the updated guidance, right? So, there might be some upside?

A - Dave Ruud {BIO 16089859 <GO>}

There, yes there might be some upside. The guidance was really just taken out the Midstream part.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. Thank you for clarifying.

Operator

The next question is from the line of Ryan Levine with Citi.

Q - Ryan Levine {BIO 19520640 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Dave Ruud {BIO 16089859 <GO>}

Morning.

Q - Ryan Levine {BIO 19520640 <GO>}

Can you update us on longer-term O&M outlook and now that we're emerging from a COVID environment, if you're seeing any more structural changes to your cost profile?

A - Jerry Norcia {BIO 15233490 <GO>}

We constantly work to maintain O&M as flat as possible. And I think, you'll see from our history that were one of the better performing utilities in terms of being able to keep our O&M costs relatively flat, I think over the last several years we've been about 1% CAGR. On O&M, we do have significant opportunities to continue to do that looking forward. And that certainly is built into our growth plans as well as our affordability (inaudible) gets for our two utilities.

Q - Ryan Levine {BIO 19520640 <GO>}

Are you seeing any inflationary pressure for labor or any other component of your cost structure?

A - Jerry Norcia {BIO 15233490 <GO>}

We've been looking on that pretty hard as we started to build our plans for '22 and beyond. And we have got a long-term contracts for some of our key commodities on the material side. So, we're not seeing pressure there. And with our contractors, I don't do -- a good portion of our work, those are obviously negotiated prices and again, not seeing anything that would give us great concern at this point in time.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. And then, on energy trading you had highlighted the increasing guidance range that largely was reflecting the year-over-year increase for the second quarter. Is there embedded conservatism for the second half outlook -- in light of some of the volatility in the gas prices that will rise to higher prices? Or is there any color you can share on what's driving the relatively no change to the second half outlook?

A - Dave Ruud {BIO 16089859 <GO>}

Yeah, there's conservativeness in that. As you can see, we put our guidance from 25 [ph] to 35 [ph] and we're pretty much within that range or at the top end of that range already. So, we do have some conservatism in that number and we'll just have to watch how it plays out throughout the year.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay, appreciate it. Thank you.

Operator

The next question is from James Thalacker with BMO Capital Markets.

Q - James Thalacker {BIO 1794957 <GO>}

Good morning. Can you guys hear me?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Good morning.

A - Dave Ruud {BIO 16089859 <GO>}

Yeah. Good morning.

Q - James Thalacker {BIO 1794957 <GO>}

One real quick question. And I know it's early in the IRP as sort of the end of next year. But as you're approaching the acceleration potentially have more coal. How are you thinking about, I guess the regulatory recovery mechanisms for accelerating that coal retirement, are you thinking more regulatory asset model or securitization potentially?

A - Jerry Norcia {BIO 15233490 <GO>}

What we're looking at are various techniques that we have our disposal one of the accelerated depreciation. We're also looking at ways to make the assets -- asset lives longer in terms of being remaining used in used (inaudible) in all kinds of fiscal options for that -- that we're considering. And we're also looking at some tax strategies that could help smooth affordability as well. So multiple ways that we're looking at making financing on the retirement of coal earlier more affordable to our customers and also making sure that our investors get their value out of these assets.

Q - James Thalacker {BIO 1794957 <GO>}

Great. Thanks so much, guys.

Operator

Have a follow-up from Jonathan Arnold with Vertical Research.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Well, thank you, guys. This is a quick one. On the convert post the spin, I believe the numbers may change in terms of other shares it will convert into and we'll have you, will that be disclosed in the Q [ph] or could give us some guidance here as to what the implications of the spin worth a conversion?

A - Dave Ruud {BIO 16089859 <GO>}

Yeah, there is -- there will be an adjustment to the settlement rates to ensure consistency of the economics. So it'll change the convert price kind of in proportion with the equity price so that equity holders remain (inaudible) and Barb can send those mechanics to you -- you can contact Barb and get the actual mechanics of that if you want after the call.

Q - Jonathan Arnold {BIO 1505843 <GO>}

But there is an offset Dave, it's really my question, rather were they still pending on trading levels?

A - Dave Ruud {BIO 16089859 <GO>}

I think, with the trading levels seeing where the stock price will be at the time there will be convert still will affect that.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Great. Thank you.

Operator

And your final question comes from line of Anthony Crowdell with Mizuho.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, good morning, Jerry. Good morning, Dave.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Dave Ruud {BIO 16089859 <GO>}

Hey, Anthony, how's it going?

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, hopefully two easy ones, I guess the first one Jerry earlier in the call, you are highlighting how the transaction team worked, you got to spin of DT Midstream very seamless. I mean, you seem like you're transaction team is in midseason form right now. Any thought to keeping them in shape with other transactions?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, right now we're -- Anthony, we're really focused on our $17 billion growth agenda of the utilities, I will choose the lion share of our CapEx. And of course, having a nice modest growth for our non-utility business P&I and RNG and cogen primarily. So, that's really our play right now, for the next five years.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then just lastly, post spin and I just don't know the process. Do you know if your ESG score is under like evaluation now that the company has removed the ESG business and looking at your new I guess environmental footprint DTE classic, I mean how often is that review happen or any insight you give on the potential for a change in your ESG score?

A - Jerry Norcia {BIO 15233490 <GO>}

So, I would venture to say that our ESG metrics will improve with this spin of DTM, but Barb, maybe I'll get Barb to provide some insights to Anthony as to when that might happen, when might we get the next score.

A - Barbara Tuckfield {BIO 19701481 <GO>}

(multiple speakers) Sorry about that. Yeah, those happen annually, typically and right now we're sitting above average on quite a few of those metrics.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks so much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Anthony.

Operator

I will now turn the call back over to Jerry Norcia for closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you everyone for joining us today. I'll just close by saying that DTE had a very successful first half of the year and we're feeling really good about the remainder of 2021, and also how well we're setting up for 2022. So, I hope everyone has a great morning, and stay healthy and safe.

Operator

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