Q4 2022 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Analyst, Scotia Bank
- Angie Storozynski, Analyst, Seaport
- Anthony Crowdell, Analyst, Mizuho
- Constantine Lednev, Analyst, Guggehenim Partners
- David Arcaro, Analyst, Morgan Stanley
- Michael Sullivan, Analyst, Wolfe Research
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Brent and I'll be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy Fourth Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you.

It is now my pleasure to turn today's call over to Barbara Tuckfield, Director of Investor Relations. Ma'am, please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

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

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

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Barb, and good morning, everyone, and thanks for joining us. I hope everyone is having a healthy and safe year so-far. This morning, I'll start by giving you a recap on our outstanding 2022 business performance, provide highlights on how we are well-positioned for 2023, and give an overview on robust opportunities in our long-term plan. Dave Ruud will provide a financial update and wrap things up before we take your questions. I'll begin on Slide 4.

We delivered another solid year for all our stakeholders in 2022, which included delivering strong financial results, continuing our excellent track-record of creating shareholder value for our investors. I continue to be impressed by our amazing team that delivers exceptional service to our customers and to each other. I always say that employee engagement is the secret sauce that drives our success at DTE. And our team continues to operate at top-decile engagement levels as measured by the Gallup organization.

This engagement was recognized by earning the Gallup Great Workplace Award for the 10th consecutive year, and is evidenced in a way our team shows up everyday. Our team continued to deliver for our customers in 2022. I'm very proud that DTE Gas is ranked first in residential customer satisfaction as measured by J.D. Power. This recognition signifies our strong commitment to our customers.

We also undertook a number of initiatives to continue to improve electric reliability, and we see that paying dividends for our customers. We invested more than $1 billion in our electric grid last year to help improve reliability for our customers. In 2022, the electric grid operated without incidents 99.9% of the time. Across DTE's electric service territory, customers experienced 21% fewer power interruptions in 2022 versus 2021. And the average outage duration time was down more than 40%.

In communities where DTE completed some of our most focused work on the grids more challenged infrastructure, customers experienced up to a 70% improvement in reliability. 2022 was a record year for investment in our grid, and the result was stronger reliability. In addition, our field crews continued their focus on grid resilience and trimmed more than 6,500 miles of trees, as we continue on our accelerated tree trim program. It's clear that as we invest in a grid, our customers benefit with improved performance and more reliable power.

For our broader community, we continue to be the largest producer of, and investor in, renewable energy in the State of Michigan. We also added significant additional MIGreenPower customers through our voluntary renewable energy program, continue on our path to decarbonization.

In 2022, we invested $2.5 billion with Michigan businesses, creating and sustaining more than 11,000 jobs across the state. And on the investor front, 2022 was another strong financial year. We delivered operating EPS growth of over 10% from our 2021 original guidance midpoint. And we are well-positioned to continue to deliver the strong performance and premium growth that DTE is known for.

As you know, we received an order from the Michigan Public Service Commission on our electric rate case last November. Although, there are a lot of positive aspects for the outcome for which we are very grateful for, we were disappointed by the projected residential sales volume in the final order. Accordingly, we have implemented a series of one-time O&M actions to address this challenge. That will support us delivering the midpoint of our operating EPS guidance range, consistent with the early outlook we provided in November. Dave will go into a lot more detail on the O&M actions that we're taking.

DTE and the MPSC share a mutual interest in bringing affordable, reliable and cleaner energy to our state and our customers. And the residential sales volume will be reviewed in our recently filed rate case. For 2023, our operating EPS guidance delivered 7% growth from the original 2022 guidance midpoint. And our long-term EPS growth target is 6% to 8%. We are confident in our ability to deliver that growth for our investors.

Let's turn to Slide 5. We are making significant customer-focused investments to build the grid of the future and invest in cleaner generation, while modernizing the gas transmission and distribution system. We increased our five year utility capital plan by 20% or $3.5 billion over last year's plan. And over the next 10 years, we plan to invest $45 billion in our two utilities. The focus of these investments continues to be infrastructure renewal, and cleaner generation at DTE Electric. While at DTE Gas, our plan includes main renewal and base infrastructure investments, as we accelerate the modernization of the gas transmission and distribution system.

Now, I will highlight some of the successes at our electric company and go through the details of our electric capital plan on the next slide. In 2022, we made significant progress on our path to cleaner generation and a more reliable grid. We continued the strong growth in our MIGreenPower program, signing two of the largest utility renewable contracts in the country with Ford Motor Company and Stellantis. We have currently 2,250 MW subscribed to this program, supported by 900 businesses and 85,000 residential customers. And it continues to grow daily and exceed expectations.

In 2022, we retired two coal plants. The shift from coal to natural gas and renewables supports cleaner energy and helps further reduce O&M costs. Our diverse energy mix helps us reduce fuel costs as well and allows us to maintain flexibility to adapt to future technological advancements. Our five year plan for cleaner generation is $2 billion higher than the previous plan, including $1 billion for voluntary renewables and $1 billion for solar-related to our integrated resource plan. We increased our distribution infrastructure investments by $1 billion. We continue to modernize our electric grid to prepare for increased extreme weather and load growth that we're anticipating from EV adoption.

Let's turn to Slide 7, and go into additional details on what supports this plan. Supporting our five year utility capital plan is the Integrated Resource Plan we filed in November with the commission. The IRP accelerates our generation transformation to achieve carbon emission reductions at DTE Electric of 85% by 2035, 90% by 2040, and net zero by 2050. This is a significant acceleration from our prior plan.

This filing provides updates on our path for decarbonization and our commitment to continue providing cleaner, more reliable, affordable energy to our customers. The IRP supports the Michigan economy and tax base with power generated in our home state, invest $9 billion over the next 10 years in the Michigan's economy and reduces the cost of our clean energy transition by $1.4 billion from our prior plan. We will pursue a settlement in this case, and we will have an outcome in the second half of this year.

The IRP and our investments in cleaner generation are supported by the Inflation Reduction Act or the IRA. The IRA includes a lot of positive elements for DTE that benefit both our utility and non-utility businesses. We continue to focus on customer affordability as we go forward with our robust investment plan. Our commitment to a continuous improvement culture gives us confidence we will maintain our affordability goals, and the IRA will help enable affordability throughout our plan.

Just a couple of weeks ago, we filed a rate case that underpins investments in system reliability, grid modernization and cleaner generation investments. We intentionally did not request a base rate increase during the COVID pandemic to assist customers with affordability. Since 2020, we invested more than $8 billion and DTE [ph] electric system, while keeping base rates nearly flat.

In order to continue to make progress that our customers expect and account for the significant investments we have made in a grid and cleaner generation, the electric company needed to file a rate case. After four years of essentially no base rate increases, we are requesting an increase that would go into effect at the end of 2023. This request supports investments in Michigan to improve reliability and deliver clean energy while maintaining affordable rates.

The majority of the request in this filing is attributable to the capital investments, sales reductions and the cost of debt. We are committed to working with all interested parties to pursue a settlement that strikes the right balance between continuing to increase reliability and providing cleaner energy for our customers, all the while maintaining affordability.

We also filed for an Infrastructure Recovery Mechanism or an IRM, in the case. Modeled after our DTE Gas IRM, the electric IRM would allow us to recover the cost of grid infrastructure investments between rate cases. It is our objective that as the IRM grows over time it would help stretch the time between rate cases as it does for DTE Gas.

Let's move to Slide 8, and discuss DTE Gas. At DTE Gas, we are continuing main renewal for reliability improvements and further greenhouse gas emission reductions, as well as replacing aging transmission equipment. We successfully completed 220 miles in 2022 and have a target of 200 miles in 2023. We are targeting a reduction of 65% of our greenhouse gas emissions by 2030 and net zero by 2050. As I mentioned earlier, DTE Gas is ranked number one in residential customer satisfaction, of which we are very proud and thank our DTE team for this tremendous accomplishment.

Let's move to Slide 9 to discuss DTE Vantage. We continue to make significant progress in project development. In 2022, we placed an RNG project and another customer energy solutions project in service. In 2023, we are placing three new RNG projects and one custom energy solutions project in service. We also recently executed a new long-term fixed-fee agreement with Ford Motor Company for its new electric vehicle and battery manufacturing complex. This complex, which is expected to be in service in 2024 will be Ford's largest EV manufacturing facility in North America. DTE will invest over $200 million, provide steam, hot and chilled water to Ford, and electricity to Tennessee Valley Authority.

We are consistently growing earnings by over $15 million annually, with capital investments of $1 billion to $1.5 billion in the five year plan. This is underpinned by federal and California low-carbon fuel standards and the IRA, which supports a very robust pipeline of projects in both the RNG and custom energy solutions areas. We remain confident in continued growth at this segment.

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

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone. As Jerry said, we completed another very successful year in 2022 and we are well-positioned for 2023 and future growth. I'll start on Slide 10 to review our 2022 financial results.

Operating earnings for the year were $1.2 billion. This translates into $6.10 per share, placing us at the high-end of the guidance range that we had increased during the year. 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 $961 million for the year. This was $97 million higher than 2021, driven by the non-recurring $90 million pretax tree trim deferral that we did in 2021 to further accelerate our reliability improvements. We also had the accelerated deferred tax amortization in 2022 that was implemented to delay our rate case filings and avoid increasing customer base rates. These earnings increases were partially offset by higher-rate base cost and residential sales that were lower in 2022.

Moving on to DTE Gas, operating earnings were $272 million, $58 million higher than 2021. The earnings variance was due to the implementation of base rates and cooler weather, partially offset by higher-rate base cost.

Let's move to DTE Vantage on the third row. Operating earnings were $93 million in 2022. This is an $83 million decrease from last year due to the sunset of the REF business at the end of 2021, partially offset by higher custom energy solutions and RNG earnings in 2022. On the next row, you can see Energy Trading earnings were lower year-over-year, primarily due to the performance of the Power Portfolio. This was partially offset by strong physical gas performance. Energy Trading earnings were $14 million for 2022.

Finally, corporate and other was favorable $1 million year-over-year. Overall, DTE earned $6.10 per share in 2022, representing 10% growth from our 2021 original guidance midpoint. So another strong year, putting us in a great position for the future. As we have stated in the past, we attribute this continued success to our proven planning process which includes a detailed five year plan that is constructed with lean and invest plans across the portfolio.

Let's move to Slide 11, to discuss this process before we review 2023 guidance. As we've discussed before, our most senior executives meet weekly to review our financial plan for the current year and the following year. In this robust planning process, we develop a base plan plus lean and invest plans that we can implement if we realize risks or opportunities throughout the year.

Before we receive the rate case order in November, we had a base plan to achieve our growth targets taking into account all the macroeconomic headwinds we were seeing, including increased interest rates and inflation. Since receiving the order on the rate case, we've enhanced our plan to address additional challenge and we are implementing actions from our lean plan, including a number of one-time cost reductions that are not sustainable over the long-term. These initiatives are all-in areas where we have achieved success in the past like during the start of the pandemic and during the last recession.

These actions include delaying hiring, reducing our contractor workforce, deferring maintenance work in the short-term and limiting overtime accordingly. Through we're taking these actions, we remain confident that we will achieve our financial goals for the year without sacrificing safety, reliability or customer service.

Let's turn to Slide 12, to discuss our 2023 operating earnings guidance. We are well-positioned to deliver another successful year in 2023. Our operating EPS guidance midpoint of $6.25 per share provide 7% growth from our 2022 original guidance midpoint. Growth at DTE Electric was driven by distribution and cleaner generation investments and supported by the O&M reductions, I just described. DTE Gas will see continued customer focus investment in main renewal and other infrastructure improvements. DTE Vantage growth will be driven by a strong development pipeline in RNG and custom energy solutions projects. At Vantage, as we go through 2023, we will see the timings for the earnings is back-end loaded towards the third and fourth quarters as new already secured projects come online. At Energy Trading, earnings guidance is $20 million to $30 million for the year.

I do want to point out that forecasted earnings are expected to be negative in the first quarter and reversing through the year. This is primarily due to the accounting recognition of contracts in our power physical business that have revenue based on fixed prices over the term of the transaction. And then these transactions are hedged upon execution. The recognition of the fixed price revenue we receive for energy in these contracts does not vary month-to-month, while the recognized cost of energy is variable based on the energy curve that is highest in January and February. This timing variance in Q1 could be loss of $20 million to $30 million but will unwind through the remainder of the year. Overall, we continue to feel confident about our 2023 guidance across our businesses and we are well-positioned for future growth.

Let's turn to Slide 13, to discuss our balance sheet strength. We continue to focus on maintaining solid balance sheet metrics. Due to our strong cash flows, DTE has little to no equity issuances in the plan. We have a strong investment-grade credit rating and target an FFO to debt ratio of 15% to 16%. We increased our 2023 dividend by 7.6%, continuing our track-record over 100 consecutive years of paying a cash dividend. Let me wrap-up on Slide 14, then we open the line for questions.

In summary, we achieved great success in 2022 across all of our business lines. We have a solid plan for 2023, targeting 7% operating EPS growth from our 2022 original guidance midpoint. A robust capital plan supports our 6% to 8% long-term operating EPS growth, while delivering cleaner generation and increased reliability for our customers.

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

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

Jerry Norcia {BIO 15233490 <GO>}

Hey, Dave and Brent, before we open it up for questions, I would just like to let the community -- investment community know that we had one of our largest ice storms roll-through our service territory yesterday and across the whole state of Michigan. And we've got over 400,000 customer outages at this point in time. And I want to give a shout-out to our people, over 2,000 people are in the field today first thing this morning dealing with this and are safe and trying to restore our customers safely and as quickly as possible. And we understand certainly the inconvenience this causes to our customers, but again, our goal with several thousand people in the field this morning is to restore our customers as quickly and as safely as possible.

So with that, let's open up for the first question, Brent.

Questions And Answers

Operator

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

Q - Constantine Lednev {BIO 20113787 <GO>}

Hi. Good morning, team. It's actually Constantine here for Shar. Congrats on a great quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, Constantine. Thanks.

Q - Constantine Lednev {BIO 20113787 <GO>}

Certainly, appreciate the disclosures around the lower revenue approval. Can you maybe just talk about the changes that are now embedded in that reiterated '23 guidance? And maybe just contrasting with prior years, I think you called out around $100 million of kind of contingency flex. So what would be a good proxy for '23, specifically as we think about lean actions? And what portion was built-up in '22 like weather and reinvestment versus more recurring and prospective reductions?

A - Jerry Norcia {BIO 15233490 <GO>}

So, as Dave mentioned, we had prepared our plans in the fall prior to the rate case. We had adequate contingency in our plans and we had anticipated some of the headwinds from interest expense and inflation. When we received the rate order, it created an incremental approximately $120 million challenge to our plan. And so we dove deep into our lean plans and started exercise our lean plans immediately, which is a practice that many of you are familiar with that we undertake.

And the areas that basically we pursued were delaying hiring, reducing contractor workforce and placing our employees into those roles, reducing overtime significantly and deferring maintenance work without sacrificing safety or quality of service. And as you know, when we have years where we experienced favorable outcomes like last year, we started to invest heavily in our maintenance practices. And so this year, we'll be drawing on those banks, if you will.

A - David Ruud {BIO 16089859 <GO>}

And I'll just add that as soon as we knew that this rehearing was a possibility or that we saw the sales, we went into action building our plans. And now, we're tracking this daily and a lot of times in weekly and we're executing on our plans really well so-far this year.

Q - Constantine Lednev {BIO 20113787 <GO>}

Excellent. And following-up on the parent guidance and holdco [ph] debt, as you mentioned, it looks like '23 is relatively flat to '22. Can you talk about the interest rate assumptions and refinancing needs that you're embedding at this point? Utility bonds continue to hover in the high 5s range. And is that fully embedded in both the '23 guidance and the reiterated 6% to 8%?

A - David Ruud {BIO 16089859 <GO>}

Yes, it is. At the highest level, we've incorporated increasing interest rates in our plans for our five year plan. At the holding company, right, we don't have any retirements in '23 other than this $800 million of outstanding term loan. And for that, we've entered into some floating to fix to make sure we reduce any exposure to interest rate volatility in '23.

And then in '24 and '25 and beyond, we've conservatively modeled rates in our plan and look for opportunities to bring that in even more favorably as we go forward.

Q - Constantine Lednev {BIO 20113787 <GO>}

Excellent. And last quick one, just housekeeping on the DTE Vantage side. Have you seen any shifts in economics and valuation in the business as it relates to specifically the non-solutions businesses like RNG? You've seen a lot of new entrants and private equity engagement on that front. So kind of does that make it more or less attractive versus development like carbon capture or any other emerging solutions?

A - Jerry Norcia {BIO 15233490 <GO>}

I can start, and Dave can add. Certainly, we're seeing very aggressive values for RNG transactions. That's encouraging in terms of value for our assets. And we are starting to look at a handful of opportunities in carbon capture and storage, especially with the IRA providing significant tax credit uplift in that business. And we're looking at very small projects to sort of get our feet wet, if you will, in that process with our expertise in storage and pipeline work as well as processing.

So Dave, do you want to add to that?

A - David Ruud {BIO 16089859 <GO>}

I agree. I think all I was going to add is that the IRA has made some of these projects more attractive. So we do see some additional competition, but we also have some of our own landfill gas projects that we can work for conversions that can be very attractive for us in the future, too.

Q - Constantine Lednev {BIO 20113787 <GO>}

And just any thoughts on capital rotation within that business or more kind of toe in the water approach?

A - Jerry Norcia {BIO 15233490 <GO>}

At this point in time, there's no definitive plans for capital rotation. But I -- we're constantly looking at those types of opportunities. We've got a track record of rotating capital out of our non-utility businesses and helping to fund some of our utility work. At this point, you would notice that we have very little equity needs. So we're trying to certainly match up sort of financing needs with potential rotations in the future. So we'll see more to come on that as we go. But certainly, always open to anything that creates accretion opportunities for our investors.

Q - Constantine Lednev {BIO 20113787 <GO>}

Excellent. I'll leave it there. Thanks.

Operator

Your next question is from the line of Nick Campanella with Credit Suisse. Your line is open.

Q - Unidentified Participant

Hi. Good morning. Thanks for taking my question. This is (inaudible) for Nick today. So just first question...

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Nick. Well, good morning.

Q - Unidentified Participant

Yeah. So first question is on the regulatory strategy, as you mentioned to continue practice of pursuing a settlement with all stakeholders. Could you just update us on this front? And how should we view this new rate case filing just different from the last one filed earlier last year? Also, recognizing PSC's comments on the rehearing process, I think it's -- I think although the request was denied. The commissioners believes that DTE comes in with a very constructive approach and willing to negotiate.

And also just on the electric side, I think mostly rate cases have been conducted through litigation. Can you just help us better understand the new electric rate case filing strategy with these backdrops?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So our intent, we've got two major regulatory initiatives this year. One is the Integrated Resource Plan that will conclude in the second half of this year and then our electric general rate case that will conclude in December. We are very interested in settling both. And I would say that in the first instance, with the integrated resource plan, many of the parties that are involved are very interested in settlement discussions. We've had our first set of discussions, which are encouraging. And we seek to settle that case, which is the Integrated Resource Plan. Later in this year, we will start those conversations for settlement around the electric rate case.

We do have a history of settling gas cases in many of our renewable regulatory filings as well as our cost recovery factor filings and GCRs have been settled in the past. So we know how to do this and have done it, and we will pursue it in these two major regulatory initiatives this year.

Q - Unidentified Participant

No. Thanks. This is really helpful. Thanks for all the colors. And just quickly on the '23 guide, you provisioned for midpoint. And given all the mitigation strategy, can you just comment on just how should we think about -- I think it was timely call on the storm cost or any weather conditions that could throw you off this midpoint, how much or how should we think of -- have you provisioned for that?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, certainly, the contingency that we walk into the year with is exactly for these purposes, whether it's deviations in weather or -- we do carry a storm budget as part of our base plan. And then, of course, if storm costs exceed plan, and that's what contingency may be used for -- or maybe for weather variations. So I would say that we have adequate contingency at this point in time based on what we've seen so far in the year.

And as we consume contingency, as I mentioned before, we go into deeper lean actions to try and restore contingency, especially as we head into the summer season, which is really our biggest opportunity to create value for our shareholders. That's when we really want to make sure that most of our contingency is intact.

Q - Unidentified Participant

No, it makes sense. Really appreciate the colors here. Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - Unidentified Participant

Hi, good morning. This is a Heidi (inaudible) on for Julian. Thank you for taking our questions and congrats on today's results.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Q - Unidentified Participant

Thank you. Just the first question, kind of coming back to the 2023 O&M cuts. You mentioned historic success in executing on these cuts with COVID and the last recession. Do you perceive any risk, I guess, at this time around, once again executing on O&M costs given, a, the inflationary cost backdrop we've seen and then b, a bit higher scrutiny from Michigan regulator across Michigan utilities on vegetation management efforts, particularly with the 2022 storm docket? Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. So let me start with vegetation management first. We've got our largest vegetation management program that we've ever had historically in our company. Back in 2013, we were investing about $65 million a year in vegetation management. And several years ago, we came up with a creative solution with the commission to basically more than triple the investment in vegetation management. This year, for example, we will invest over $200 million in vegetation management. And we actually agreed to amortize those costs over time in order to smooth out the impact to our customers, but still give our customers the benefit of reliability improvements.

And as I mentioned in my comments, I think the commission would agree that we've had significant impact on reliability where we have taken on a very aggressive tree trimming, as well as hardening of the system by replacing poles and wires and transformers. So very significant investments in the grid. And where we've completed that work, we've had significant improvements in reliability.

So we feel good about the work that we're doing. We were always looking for opportunities to do even better. And we believe that, that's what the process that the commission has initiated is really about, is really finding joint opportunities to accelerate and improve processes to make our investments even more effective than they have been. So I'm excited about that.

In terms of cost reductions, your first question. We are undertaking many of these one-time actions in order to accommodate the challenge that we received late last year. And we feel pretty confident in executing those. We know they are one-time. They're not sustainable. Things like not hiring people or suspending hiring. We do need to replace critical positions in our company over time. And not to say that there's not potential efficiency opportunities that we will pursue, some of this could stick. I mean, that's the opportunity that we're faced with. But a lot of these actions are one-time and not sustainable in nature. And also, deferring maintenance work, we can do that for short periods of time, but certainly cannot do that for a longer periods of time. Hopefully, that helps.

Q - Unidentified Participant

Yes, definitely.

A - David Ruud {BIO 16089859 <GO>}

Yeah. And as we built these plans, we were very careful to ensure that we weren't going to impact -- first of all, never impact safety. Nothing that would impact reliability or our ability to deliver for our customers. And so these plans are built with that in mind and so it should fit well even though they're unsustainable for, in the future should fit well with what we're trying to continue to do for our customers.

Q - Unidentified Participant

Understood. Thank you. That's helpful. And then just kind of switching gears a bit here. I know we've seen some recent headlines detailing, for example, plans for large-scale battery manufacturing facilities in Michigan to service electric vehicles. So just kind of wondering what you're seeing in terms of new industrial load and if any of that will kind of accrue favorably to DTE in terms of higher electric load?

A - Jerry Norcia {BIO 15233490 <GO>}

Certainly, last year, General Motors has announced the battery plant and battery operation -- assembly operations in our service territory. And certainly, we're really excited about that. In the past year, we also saw One Energy announced a new battery plant in our service territory. In addition to that, the University of Michigan announced a multibillion-dollar investment program right next door to our headquarters for an innovation center, which will drive economic growth and development in the city of Detroit. And most recently, the Henry Ford Hospital system is rebuilding their hospital campus in Downtown Detroit with a multibillion-dollar investment as well, which will create new jobs, new economic development activity.

And those are some of the big ones that I mentioned, but there are so many others. In my time at DTE, this has probably been the most active economic development period that I've seen. So we're pretty excited about growth both in the industrial and commercial sector, which ultimately, as you know, will drive growth in residential investment as well and commercial investment to support those industries.

Q - Unidentified Participant

Great. Thank you. That's great color there. Thanks for your time this morning, and congrats again.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question is from the line of Angie Storozynski with Seaport. Your line is open.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, Angie.

A - David Ruud {BIO 16089859 <GO>}

Good morning, Angie.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good morning. So just going back to the rate case strategy, and I know that we are maybe over analyzing this. But I'm just -- I mean, you have another rate case filing, a big one this time. Are there any lessons learned from the previous case then that you've embedded in this filing? So any changes in the strategy? Some, I don't know, outreach to the commission and the staff ahead of it? So that's one.

Number two is how is -- how are the residential sales trending vis-a-vis the -- well, the past rate case and the current rate case? I mean, are you seeing any deterioration in sales versus what you had expected?

And then lastly, you mentioned, I think, as far as the gas rate cases that you might elongate the time in between the rate cases. And I'm just debating this myself if that's the right strategy given that, that maybe increases the amount of the ask in the next rate case, if you stay out, again just trying to have some lessons learned from the outcome of the last rate case on the electric side.

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So let me start with, Angie, the lessons learned and I'll have Dave talk about sales, and then we can talk about the gas rate case strategy as well. So as we reflect on the outcome, certainly, the major issue there was sales volume forecast. And again, it's -- and Dave will talk about how our sales are tracking, but they're essentially tracking as we had expected. And -- but I -- this will be resolved in the next rate case. Sales will not be a mystery. So that's point number one. That was the biggest fundamental deviation, if you will, in this last rate case.

But again, we dug deeper than that, Angie, and said, how can we improve what we file. So we've taken another really deep inspection and review of all of our filings to make sure that they're well supported, well understood, continue to be well understood in order to get a better understanding with the staff and the commission and other interveners as to what is it that we're trying to accomplish with this significant investment profile that we have with directed at our grid, as well as our renewable assets. So a lot of work went into, what I would say, continue to improve and continuously improve the quality of our submission.

So that's something that we did, as well as we spent a lot of time ahead of the rate case, creating context, not only for the commission, but also for some of our interveners as to what are these investments pointed at and why is this fundamental? And if we look at the ice storm that rolled through our territory today, I would say it certainly further reinforces the need to invest in our grid as we see these climate change patterns start to take shape. We've had three or four major events in our service territory and across the state of Michigan over the last five years, which points to weather becoming more and more violent in our service territory, and we have to have a grid and investment in the grid that will stand up to all of that.

And secondly, we also are seeing significant electrification. We've got EV attachments increasing rapidly in our state, and we need to have a grid that's prepared for that. So we spent a lot of time, energy creating context not only with our regulator, but also with intervenors and legislators to ensure that there's a deep understanding. And we're going to continue that process all year to ensure that the context for what we are trying to accomplish is well understood and not misunderstood.

And I will say that the capital part of our program has never been a significant question by the commission or even the interveners. So that's a positive. And I would say that the administration and legislators are very supportive. But I believe that this work that we would do throughout the year they continue to create context at all levels of government and with our regulator will be very helpful. And we seek to settle, I would say that as well.

Dave, do you want to talk about sales for a minute?

A - David Ruud {BIO 16089859 <GO>}

Sure. Yeah, Jerry. Yeah. As Jerry mentioned, our sales are tracking pretty well to our forecast, and I think as end-to-end to what we have in the filing. And I think what will be the benefit going into this filing is we'll have some more stability, because you saw our sales and particularly our residential sales from 2022 versus 2021, they were down about 3% with people returning to work.

As we look to our forecast in our test year, it's down a little under 2% from that level. So far in the early months, we're seeing that we're tracking like right on that level. And so, we think we'll come in at a forecast that will be a lot more agreeable as we go forward. And overall, from pre-pandemic levels to where we are in our test year, it's up about 1.5% to 2%, too. So I think it's all triangulating really well.

A - Jerry Norcia {BIO 15233490 <GO>}

And in terms of the gas rate case, Angie, we're looking to file late this year is the current plan.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then just one follow-up. So one is you mentioned all of this outreach. I mean, what -- again, I want to believe. But what I'm trying to say is that this rate case is next electric rate case happened in such a proximity to the decision in the previous rate case. And I'm just, again, wondering how could you have embedded the lessons learned in such a short period of time. So that's one.

And number two is probably even more importantly. So over the years, you guys have always had this early earnings look, right, guidance and then it would gradually increase through the course of the year. And I'm -- and as we look from afar, we're just wondering if a conservative sales forecast were partly the reason why you were able to historically beat numbers, i.e., should we assume that the current guidance is also conservative, even given the outcome of this electric rate case?

A - Jerry Norcia {BIO 15233490 <GO>}

So let me start with the first question, how did we start on these lessons learned. We started that really early in the summer. We always get feedback from the staff through their questions and through their commentary. And we started to really sharpen our focus on improving quality of submissions going into this rate case. So we were working on this rate case before -- months and months before or probably six months before we even got the results in November.

So it did start and then I think it intensified once we got the result. And the outreach certainly intensified after the result in November because we felt the need -- great context for the fact that, hey, we've stayed out of a rate case for four years and we've invested $8 billion. And the feedback we're getting is there's very strong support for that investment. And unfortunately, we had a mishap with the sales forecast in the last rate case, but I think that will get corrected. And there will be strong support for the investments that we're making and continue to make. So that would sort of summarize the rate case part of it.

In terms of the forecast, I would say, as Dave said, we are tracking right towards the midpoint at this point in time. And that's our goal. And all of the cost initiatives that we have undertaken, Dave and I review them weekly, and the rest of our team is reviewing it out daily. And we're right on top of that plan. So we feel good about where we're at. We're also looking to restore contingency as it gets consumed sometimes by weather. So that's where we're at. So we're confident in hitting our midpoint at this point in time as we look at our outlook.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Angie.

Operator

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

Q - David Arcaro {BIO 20757284 <GO>}

Hi. Good morning. Thanks so much for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey.

Q - David Arcaro {BIO 20757284 <GO>}

I was wondering if -- let's see, on the IRM that you are proposing in the electric rate case, how long could that lead you to potentially consider staying out of rate cases to the extent you're successful in getting that applied here?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, the positive side of the IRM is that we've been talking to the commission about it for years. And as you saw in the last rate case, they invited us to file one. So there's strong alignment in order -- in terms of creating the IRM. And we think that, that, as you know, and our gas company has simplified greatly the regulatory process for capital that's not disputed, if you will, but needs to be invested. And it's going to be primarily directed -- actually not primarily, it will be directed at the grid. That's what the IRM will be used for. And it will build over time. So it's going to take a few years before it starts to have an impact on the timing of rate cases.

But to give you an example, as we built it up in the gas business, it allowed us to stay out for two and three years at a time. And that's certainly the case this time. We've stayed out for at least several years already in the gas company. So we expect that to happen with the electric business. As we build confidence in the IRM, we'll start with modest amounts going into the IRM, as you've seen in our rate case filings, and that will build over a three year period. And we'll get used to working together on that because it does take some time to build confidence in the execution as well as the management of the IRM.

So we're taking a page out of the gas playbook to build up this IRM and achieve our goals of making the necessary investments, as well as starting to put time between rate cases. So it will take a few years is my answer before we start to see a significant impact on timing of rate cases.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Got it. That makes sense. I appreciate that context. And then was curious, obviously, the decline in natural gas prices that we've seen is a nice tailwind for customer bills. But when -- just based on kind of storage levels and the seasonal use of that gas, when would customers potentially see the lower prices flow through into rates?

A - Jerry Norcia {BIO 15233490 <GO>}

They're seeing it right now. As a matter of fact, I was talking to the President of the gas company the last couple of days, we're going to lower the factor by about $1 here in the next little while. So we're seeing the prices come down quite nicely from their peak.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. And could that lead to a year-over-year decline overall in the fuel portion of gas? Or is that going to take still some time to kind of flow through the higher priced gas that might have been collected late last year?

A - Jerry Norcia {BIO 15233490 <GO>}

I think we've already seen a year-over-year decline, and it will continue to decline. We've made a series of reductions already in the last several months in our gas prices. Our gas recovery, that's a factor. And the most significant one is coming here very shortly. It's about $1 decline in price.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Okay. Great. Thanks so much. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question is from Michael Sullivan with Wolfe Research. Your line is open.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey. Good morning, everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Michael.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey, guys. Maybe just wanted to flip over to the IRP. I think we have intervenor testimony coming up in the next couple of weeks here. Just what should we expect from that? And then in terms of settlement timing, what should we think about as coming first between the IRP and the electric case?

A - Jerry Norcia {BIO 15233490 <GO>}

So I'll start by saying that the expectations that we see is there'll be challenge to the timing of some of our retirements, especially the Monroe Power Plant. So I think you'll see that. We won't be surprised by that. And we will also perhaps see some desire to increase energy efficiency. I think many -- some parties will challenge natural gas as a future reliability source. And of course, we've got strong views on that, that the natural gas enables a large build-out of renewables as technology continues to improve around providing baseload generation.

So I think those are -- those will be the issues, if you will. And -- but there's strong support for a large portion, I believe, of our IRP. At least that's our early indication that it's received favorable reviews informally, if you will. So we look forward to the testimony that will be filed.

In terms of timing of settlements, we expect that the IRP will be settled first just because it was filed before the rate case. And just the timing of testimony and process puts the rate case a little behind the IRP in terms of the opportunity for settlement discussions. So that's how we expect the process to unfold.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay. Great. That's helpful. And then maybe a question for Dave. Just in terms of the FFO to debt, you target the 15% to 16%. Can you give us an indication of where 2022 finished up? And then to what extent you're still waiting on deferred power fuel cost recovery into this year?

A - David Ruud {BIO 16089859 <GO>}

Yeah. That's a good question. '22 ended up right around 15%. And as you mentioned, the big driver of that being a little lower was the fuel cost recovery. So we had our power supply cost recovery was a use of cash for us in '22, but will be more of a source of cash as we're recovering. The majority of that in 2023. So we'll see our FFO to debt be a little bit higher, a little bit better in 2023.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay. Thanks, guys. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - Andrew Weisel {BIO 15194095 <GO>}

Hey. Good morning, everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Andrew.

A - David Ruud {BIO 16089859 <GO>}

Hey, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

I appreciate the detailed answers to the previous questions. You covered a lot of what I wanted. Just two follow-ups maybe for me then. First, in terms of the sales forecast, obviously, that was a big difference of opinion in the last rate case. Does that change have any impact on the IRP and the long-term outlook for capacity resource needs?

A - Jerry Norcia {BIO 15233490 <GO>}

We had built that in, Andrew, into IRP forecast. Now, of course, what we do in an IRP is we provide for scenarios for demand increases, both the largest demand increase opportunity is really EV attachments and some of the economic development activity that we expect in the near-term. But we try to build an IRP that not only addresses point estimates, but also a range and scenarios and forecast. And that's something that is required by the IRP filing guidelines. And I think we think it's a very wise thing to do because obviously, over a period of 20 years, there can be a significant amount of variability in demand forecast. So we provide low, medium and high type of forecast.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. And you're still in that range, essentially?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, yes.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. Then lastly, on equity. The sources and uses of cash page -- Slide 17, shows zero or a little dash, I suppose, for new equity. But in one of the earlier slides you talked about up to $100 million per year. How likely is that to remain zero? Is that a function of the timing of CapEx or the $1.3 billion convertible last year? Just trying to understand why that's zero and not something greater than zero.

A - David Ruud {BIO 16089859 <GO>}

Yeah. Our goal there will be to keep that as low as possible, obviously, and how we generate cash and how we get cash through our plan will be one of the big drivers of that and how we use it in CapEx. So we see in our plan minimal equity issuances, hopefully, in that -- around zero, but it could be in the zero to 100 range as we go forward.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. So it's zero for the entire three year period is a realistic possibility?

A - David Ruud {BIO 16089859 <GO>}

It's a possibility. I would expect some internal equity issuances that we have through our internal sources, so.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. Thank you and good luck with the restoration efforts this morning.

A - David Ruud {BIO 16089859 <GO>}

Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - Anthony Crowdell {BIO 6659246 <GO>}

Jerry, good morning. Good morning, Dave.

A - David Ruud {BIO 16089859 <GO>}

Hey, Anthony.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

You guys keeping warm I hope.

A - Jerry Norcia {BIO 15233490 <GO>}

We like the cold, Anthony, you know that. We don't like ice, but we like the cold.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Well, again, I hope the restoration efforts go quickly. I'm sure it's a grind for all the workers out there. So fingers crossed.

A - Jerry Norcia {BIO 15233490 <GO>}

We're really proud of our people out there. They're braving these elements, and we just hope for their safety and good health, and certainly the same for our customers.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Yeah. I'm sure we all take for granted the service we get provided in our electric system and gas. Just two quick ones. One on the IRM filing or request. And I apologize if I had this wrong. Has DTE requested that for the electric segment before? And just what -- if so, what gives you optimism that this time maybe it gets approved?

A - Jerry Norcia {BIO 15233490 <GO>}

You know the last time we did it, Anthony, we requested a really large IRM amount, and this is like over a handful of years ago. And this time and it was -- I felt at that time the feedback we got that, maybe it was too big of the request. And we were trying to make it big enough to stay out of rate cases immediately, so that there would be an immediate benefit to us and many other interested parties not having to have rate cases every year.

Well, this time, we've taken a different approach. We've made it smaller in the early years, which may have us -- may create a little more work as you're in for both rate cases and reconciliations in the early years on the IRM. But over time, it will start to put distance between rate cases as we grow it. And I think it will give the party -- all parties involved confidence that we're executing well on the IRM. So that's why we took a little different approach this time. And we feel that it will be successful. We socialized it ahead of time before we filed and got very strong positive feedback. So we feel good about it this time.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Do you guys ever estimate or provide what the cost is to file a rate case? If I think of all the DTE personnel that have to go around aggregating data, all the test running, you add all that up. Is there a value that you guys have put on that may be an IRM, again, you guys have been very clear that very modest in the beginning. It will take years before you start seeing that with delayed rate filings. But what's the potential savings that a customer sees if you're able to lay a rate filing?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say, there are, of course, the costs of sort of prosecuting a case, if you will for us and for our interveners and for the commission. So we'll reduce that. And I think that will be significant. But I think the more significant piece, Anthony, will be the fact that once we have certainty of an investment profile from a supply chain perspective, we can start preordering materials and working out supply arrangements that are much more efficient over the long term, over three to five years, and lining up our contractors where the bulk of the cost is and extracting value from them on behalf of our customers.

So I would say the beauty of the IRM that we saw in the gas business is you can start lining up major supply chain and initiatives and also contractors to extract efficiencies. When you can commit to somebody for five years, there's a huge incentive for them to respond to our efficiency initiatives. So that's where I see millions of dollars of potential savings in capital and the ability to accelerate our work.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And just lastly, DTE Vantage. I love the guidance you've given out, I believe, till 2027. Can I think of the growth from '23 to '27 as linear? Or is it more back-end loaded? Like, just any clarity on the growth in earnings at DTE Vantage?

A - Jerry Norcia {BIO 15233490 <GO>}

Typically, we're targeting that $15 million to $18 million, Anthony, of growth at Vantage to support that forecast. So that's what the team is tasked with each and every year. And sometimes they beat it, sometimes it's lower. But overall, it averages out to about $15 million to $18 million a year of income growth. And a lot of it is -- we can look to it coming because we've got these landfill projects that are under our current control that we can convert to RNG. And so we've got a nice line of sight at least over the next two or three years into project development.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions. And again, best of luck on the restoration efforts.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Anthony.

Operator

Ladies and gentlemen, that is all the time we have for questions today. I would now like to turn the call back to Mr. Jerry Norcia.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you, everyone, for joining us today. And I'll just close by saying, we had another strong year in 2022. And I'm feeling really good about 2023 and our position for the long-term future. So I hope everyone has a great morning, and stay healthy. Thank you.

Operator

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