Q2 2023 Earnings Call

Company Participants

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

Other Participants

- Alex Mortimer, Mizuho Securities USA LLC
- David Arcaro, Morgan Stanley & Co. LLC
- Heidi Haugen, Bank of America
- Jeremy Tonet, JPMorgan Securities LLC
- Michael P. Sullivan, Wolfe Research LLC
- Shar Pourreza, Guggenheim

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the DTE Energy Second Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode, and please be advised that this call is being recorded. After the speakers' prepared remarks, there will be a question-and-answer session. (Operator Instructions)

And now at this time, I would like to turn things over to Ms.Barbara Tuckfield, Director of Investor Relations. Please go ahead, ma'am.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, and good morning, everyone. Before we get started, I would like to remind you to read the Safe Harbor Statement on Page 2 of the presentation, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix.

With us this morning are Jerry Norcia, Chairman and CEO; and Dave Ruud, Executive Vice President and CFO.

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

Jerry Norcia {BIO 15233490 <GO>}

Well, thanks, Barbara, and good morning, everyone, and thanks for joining us. This morning, I'll be discussing the achievements we've made so far this year and provide a general business update. I'll discuss the progress of our regulatory proceedings, including the details of our IRP settlement. Dave will provide a financial update and wrap things up before we take your questions.

Before we dive in, I want to take this opportunity to touch on some recent appointments to our Regulatory Commission here in Michigan. Governor Whitmer, Extended Chair Dan Scripps term and additional six years to 2029. The reappointment of Chair Scripps provides consistency in regulatory leadership, and we appreciate the balance he has always brought to the commission. We congratulate Chair Scripps and look forward to continuing to work with him.

Governor Whitmer also appointed Alessandra Carreon as a new Commissioner to the MPSC, filling the vacant role left by Tremaine Phillips. We look forward to working with her as she comes to this position with a strong background in electrification.

Moving on to Slide 4. We remain committed to supporting and delivering for all our stakeholders, including employees, customers, communities, and shareholders. I always say that employee engagement drives our success, and our team continues to operate at top-decile engagement levels as measured by the Gallup organization. I'm proud that our team's excellence in this area was r1ecognized by earning the Gallup Exceptional Workplace Award for the 11th consecutive year.

We also received great news that DTE was named one of Metro Detroit's Best and Brightest Companies to Work For. The Best and Brightest program recognizes companies that have a commitment to excellence in their human resource practices and employee enrichment based on categories, including work-life balance, employee education and diversity.

I'm happy to say that yesterday, the MPSC approved our IRP settlement agreement, which outlines our investment in Michigan's clean energy future, two weeks after we filed it. This demonstrates the supportive nature of our regulatory environment. We are proud that this plan puts our customers first by reducing the cost of our clean energy transformation, while reliably generating the cleaner, affordable energy that our customers will rely on for years to come. I'll provide more details on the settlement agreement in a few minutes.

On a community front, DTE was honored to be named to the Civic 50 for the sixth consecutive year. This award presented by Points of Light recognizes the most community-minded companies in the nation. I am proud that our team continues to put communities we serve at the forefront each and every day in our decision making, and earning this award year-after-year recognizes that.

On the investor front, we are executing in our plan to achieve our 2023 guidance midpoint and our long-term financial growth. As you know, we have been facing headwinds with the weather and storms that we experienced earlier this year. Dave will go into more details on this. But the team has made excellent progress on the cost management work across the entire company, and we continue to find savings with our continuous improvement efforts. As well, we are seeing additional favorability across our portfolio of businesses. We are well-positioned to continue to deliver the strong performance and premium growth that DTE is known for, delivering on our 2023 midpoint guidance and also continuing to deliver long-term EPS growth of 6% to 8%.

Let's turn to Slide 5, and discuss the IRP settlement agreement. We want to thank our DTE employees and 21 organizations from across Michigan for their diligent work on this IRP settlement agreement. We completed a comprehensive analysis that reflected insights shared by our customers and other stakeholders to build the plan. The plan offers a balanced and diversified approach for the transition of our generation fleet, complementing our commitment to build a reliable and resilient grid, while maintaining customer affordability.

A key provision of the settlement agreement is ending DTE's use of coal in 2032. DTE will provide retraining for employees impacted by the plant retirements and will continue to partner with the local communities on new economic development opportunities. We are continuing our plan to cease coal use at our Belle River power plant in 2026 and convert it to a 1,300 megawatt natural gas peaking resource. We are retiring two coal units in Monroe in 2028 and accelerating the retirement of our two remaining units from 2035 to 2032, which is nearly 12 years earlier than originally planned. To determine the best replacement alternative for the capacity at Monroe, we will be studying a range of possible replacement technologies.

Facilitated by these accelerations, our 85% carbon reduction goal moves from 2035 to 2032. To support these retirements, we are transforming how the company generates electricity over the next two decades. We will be developing more than 15,000 megawatts of renewables by 2042 to power homes, businesses, and industrial facilities. Additionally, we will build more than 1,800 megawatts of energy storage to support the company's clean energy transformation.

Through all of this, our focus remains on providing what our customers and communities need, clean, affordable, reliable energy. This IRP is also very positive for customer affordability as it provides over $2.5 billion in future cost savings, and we will be directing $110 million to support our most vulnerable customers, including $70 million to energy efficiency programs, $30 million in bill assistance and $8 million in home repairs to facilitate cleaner energy for low-income customers. Through this IRP, we will be delivering long-term customer value by investing over $11 billion in the next 10 years in a clean energy transition, supporting more than 32,000 Michigan jobs.

Let's move to Slide 6 to discuss how the IRP fits into our plan. This IRP supports our long-term capital plan as it solidifies a large portion of our planned investment in cleaner generation. As you recall, we will be investing $21.6 billion in our two utilities in the next five years and $45 billion over the next 10 years, all to build the grid of the future, transition to cleaner generation, and modernize the gas transmission and distribution system. The significant additions of renewables and storage outlined in this plan, in addition to the renewables investments we are doing through our voluntary renewable program provides surety to our cleaner generation investment plan.

The IRP provides full recovery of the net book value of Belle River and Monroe. A portion of the assets are securitized to balance customer affordability with the increased investment in clean energy, while supporting our financial plan. For Belle River, we will be depreciating the majority of the asset, since it will remain in service, earning the authorized ROE currently at 9.9%. A small portion of the net book value will be securitized after 2026. For Monroe, we received constructive regulatory asset treatment for the majority of the undepreciated coal unit investment balances with a 9% return on equity. The remaining portion of the assets will be securitized beginning in 2032. We will receive our full authorized ROE, which is 9.9% until 2032, at which point that portion will be securitized.

So this plan is a really great outcome. Settling this case confirms the constructive nature of the regulatory environment in Michigan and DTE's ability to gain consensus with key stakeholders, including the MPSC staff, the attorney general, environmental, industrial, and regulatory groups. It is consistent and supports our five-year financial plan and our 6% to 8% EPS growth rate. It also provides visibility and surety in the long-term capital plan. And this settlement overall is good for customers and aligns with the state's goals to provide clean, affordable, reliable energy in Michigan.

We will be updating our full five-year financial plan at EEI. As with any of our plans, we continue to balance increases in investments in clean generation, distribution infrastructure and base infrastructure with affordability for our customers.

Now, let's turn to our other accomplishments this quarter on Slide 7. Our team has accomplished a lot so far this year. At DTE Electric, we placed Michigan's largest wind park in service, the Meridian Wind Park, spanning three townships. The 225 megawatt wind park has 77 wind turbines and generates enough clean energy to clean energy to power more than 78,000 homes. In addition to bringing even more clean energy to the grid and supporting Michigan's overall decarbonization goals, these types of projects help strengthen our economy by creating jobs and by bringing additional tax revenue to our communities.

Additionally, last month, Dakota, a native American and woman-owned automotive supplier joined our voluntary renewable program. Dakota joins 15 automotive suppliers who are using MIGreenPower to make their operations more sustainable. This continues to demonstrate the success of our voluntary renewable program that currently has over 2,300 megawatts of commitments, including participation of over 90,000 residential customers, making us the largest voluntary renewable program in the State of Michigan and one of the largest in the country.

We are continuing our focus on improved reliability of our electric grid. We trimmed more than 25,000 miles of trees over the last five years and we'll trim an additional 5,000 miles in 2023, of which we have completed 2,800 miles through the first half of this year. The electric rate case is progressing as we continue to pursue a constructive settlement with all stakeholders.

At DTE Gas, our main renewal work marches steadily along. We've completed over 150 miles of renewal in the first half of 2023. Our natural gas balance program also continues to grow. We now have over 12,000 customers subscribed since program inception in 2021. In the second quarter, the City of East Grand Rapids was the first municipality in Michigan to join the program to help lower its carbon footprint, and we invite more municipalities to participate in this great program.

Moving on to DTE Vantage. As we mentioned earlier this year, we have placed two projects in service so far in 2023, one RNG and one custom energy solutions project. We are on track to place two additional RNG projects in service by year end and are in advanced discussions on an additional custom energy solutions project. We also continue to advance our development pipeline with strong opportunities in both RNG conversions and large custom energy solutions projects.

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

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone.

Let me start on Slide 8 to review our second quarter financial results. Operating earnings for the quarter were $206 million. This translates into $0.99 per share. You can find a detailed breakdown of EPS by segment, including our reconciliation to GAAP reported earnings in the appendix.

I will start the review at the top of the page with our utilities. DTE Electric earnings were $178 million for the quarter. This is $8 million lower than the second quarter of 2022. The main driver of the earnings variance was cooler weather. There was also lower residential sales relative to 2022 with the continuation of people returning to work, higher rate-based costs and accelerated deferred tax amortization in 2022. This was partially offset by the one-time O&M cost reductions that we have implemented in 2023.

Moving on to DTE Gas, operating earnings were $24 million, $18 million higher than the second quarter of 2022. The earnings variance was driven by one-time O&M cost reductions and IRM revenue in 2023, partially offset by higher rate-base costs.

Let's move to DTE Vantage on the third row. Operating earnings were $26 million in the second quarter of quarter of 2023. This is a $2 million decrease from the second quarter last year, primarily due to planned outage timing at our renewable's plants.

On the next row, you can see Energy Trading finished the quarter with earnings of $36 million, which is $29 million higher than the second quarter last year. As I mentioned in Q1, there is some timing variability this year that is now positive in the second quarter. This is primarily due to contracts in our power physical business that include revenue based on fixed prices over the term of the transaction, and then these contracts are hedged upon execution.

We sell the energy at a fixed price for these contracts, while the recognized cost of energy is based on the energy curve, which was higher in January and February. This timing variance that we saw in the first quarter has begun to unwind as expected. We also had performance favorability in energy trading this quarter due to robust contract premiums in our physical power portfolio for 2023. Through the first half of the year, Energy Trading has earnings of $10 million.

Finally, Corporate and Other was unfavorable by $2 million quarter-over-quarter, primarily due to higher interest expense. Overall, DTE earned $0.99 per share in the second quarter.

Let's turn to Slide 9 to discuss our 2023 guidance. Let me start at the bottom of the page and tell you that we remain on track to deliver on the overall EPS guidance we have for 2023, and we have plans to achieve the midpoint of our guidance range. As we have discussed, we have faced headwinds at DTE Electric this year. This includes the lower-than-expected rate order we received at the end of last year, driven by a difference in sales forecasts of approximately $100 million. We had a $70 million impact from the winter storms in the first quarter and unfavorable weather of $42 million in the first half of the year.

Through focused one-time cost reduction efforts, DTE Electric is achieving offsets for over half of these headwinds without sacrificing safety, reliability, or customer service. However, electric will likely still fall below its guidance range as represented by the red arrow.

Favorability at each of our other business units will overcome the remaining headwinds and achieve our EPS guidance. This is depicted by the green arrows, indicating they will likely be above their guidance ranges. Additional favorability at DTE Gas is driven by one-time O&M reductions. DTE Vantage favorability is driven by stronger RNG pricing, additional projects coming into service and opportunistic contracted sales in the steel business. Energy Trading is seeing favorability in its contracted, highly hedged power portfolio, which will continue to provide additional upside to this business. All the business units implemented one-time O&M reductions, and also benefit from one-time corporate O&M reductions that cascade to all of the business units.

Through the performance of our portfolio, we have plans to achieve the midpoint of our operating EPS guidance range for DTE, and we'll update the business unit guidance after the summer weather plays out. Our guidance does assume historically average weather for the remainder of the year without the normal contingency that we typically build into the plan.

Our team has really made excellent progress identifying and implementing the opportunities in one-time O&M reductions across the company, while ensuring the reliability and safety that our customers expect. This allows us to continue to deliver for all our stakeholders. The performance this year will allow us to continue to be very well positioned to achieve our long-term EPS growth and the premium returns that our shareholders have come to expect from us.

Let me wrap up on Slide 10, and then we will open the line for questions. In summary, through the remainder of the year, DTE will continue to focus on our team, customers, communities, and investors. We are executing on our plan to achieve full-year guidance without jeopardizing safety and reliability. Our utility regulatory filings continue to advance as evidenced by our recent IRP settlement. We also continue to pursue a constructive settlement in our electric rate case.

Our robust capital plan supports our long-term operating EPS growth as we execute on the critical investment that we need to make for our customers to deliver cleaner generation and increased reliability, while focusing on customer affordability. Our long-term plan supports our 6% to 8% operating EPS growth target through 2027 and provides a dividend growing in line with operating EPS.

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

Questions And Answers

Operator

(Question And Answer)

Thank you, Mr.Ruud. (Operator Instructions) We'll go first this morning to Jeremy Tonet at J.P. Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jeremy.

A - David Ruud {BIO 16089859 <GO>}

Hi, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Just wanted to start with the electric rate case proceeding, if I could here, and appreciate where we are at the process, only so much could be said. But are you able to expand at all on how this has been progressing? And I guess, hopes for settlement at this point, when that might materialize or just any other color in general would be helpful?

A - Jerry Norcia {BIO 15233490 <GO>}

Our target, Jeremy, to settle the rate case is mid-October, and that's before the PFB has issued. So well, we have conversations, and those conversations obviously have become a lot more intense through the summer. But I believe we have the ingredients for settlement, and we'll continue to update on -- update you on that as we progress.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. Thank you for that. Just wondering, I guess, to the ability you're able to comment for weather for the third quarter, obviously the big swing quarter for the year. How do things look so far in your jurisdictions and kind of like what you can see over the next couple of weeks? Just wondering if weather help in 3Q could materialize relative to what we saw earlier in the year.

A - David Ruud {BIO 16089859 <GO>}

Yes. Jeremy, so far, we're seeing things start out pretty close to what we had expected. And so as you know though, August and September can be really big months for us or really big swing months. So continue to watch that closely as weather plays out.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. And just last one, if I could, I think for DTE Vantage, there was an opportunity to take steel sales. And just wondering if you could expand a bit more on what that was and are there other items like that, that we should look for to kind of serve as offsets?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, we're looking across our portfolio for offsets. And with the -- ones we have within our steel portfolio represent that, we have some by products that we sell as a process of what we're doing within our steel business and our coke making. And we just had got some opportunistic pricing and some really good pricing for that through the year that we've been able to take advantage of this year.

A - David Ruud {BIO 16089859 <GO>}

And I'll say, Jeremy, across our whole portfolio, we continue to look for these one-time cost reductions and some of these opportunities, like this to ensure that we can deliver for the year.

A - Jerry Norcia {BIO 15233490 <GO>}

We're also -- Just to add to that we're also seeing some lift in RNG pricing, which is also creating some favorability at the advantage.

Q - Jeremy Tonet {BIO 15946844 <GO>}

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

Operator

Thank you. We'll go next now to Shar Pourreza at Guggenheim.

Q - Shar Pourreza

Hi. Good morning. Good morning, Jerry. Good morning, David.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar. (Multiple Speakers)

Q - Shar Pourreza

(Inaudible)

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Q - Shar Pourreza

So I'm just kind of appreciating the challenging weather as Jeremy mentioned, and it looks like there was another $0.12 versus normal. How should we think about the flex O&M for the remainder of the year? And is there a need to kind of shift anything from what you embedded at the end of the first quarter?

A - David Ruud {BIO 16089859 <GO>}

Yes. As we play out the year, we're looking for the opportunities across the business again to ensure that we can offset the challenges that we've seen through storm and weather as we go through the year. And so, we're doing that across our portfolio. We -- as an extended leadership team, we're meeting weekly to ensure that we're finding all the opportunities we can and extinguishing all the risks. And through the year, we've been able to find some additional opportunities to be able to offset the challenges that we've seen through weather and through the storm we saw in the first quarter. So we'll continue to look for that flex throughout the year.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. And just to add color to some of the areas where we're diving into, to look for these opportunities, we're taking full advantage of attrition, so we're only hiring critical operating roles to make sure that we have safe and reliable operations. Some of the other one-time initiatives are happening across all the staff groups as well in terms of attrition, a significant reduction in overtime. We've deferred non-critical maintenance and pulling on some of the bank maintenance that we did when we had surpluses in prior years. We've had contractor workforce reductions.

And then, of course, as Dave mentioned, we're seeing market favorability in our gas business, as well as at advantage and trading, for that matter. In addition, we've also started to renegotiate supply chain contracts with long-term relationships to give us some value. So we're hitting all the buttons and we're learning a lot about our company. And some of these will stick, but by far and large, most of them are one-time. But I'm really proud of the team because we're hitting all the targets that we've given them to offset these significant headwinds.

Q - Shar Pourreza

So I guess, it would be fair to say kind of no big changes, just executing on the plan from one-key.

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct.

Q - Shar Pourreza

Excellent. And then maybe shifting to efficient financing, how are you thinking about supporting credit metrics in a tighter capital market environment, especially as we continue to see high levels of investment and rate-based growth? And just any thoughts on internal versus external balance sheet support? And as you mentioned, the Vantage assets are potentially helping, but maybe how are those -- the value of those assets stacking up against any future equity needs?

A - David Ruud {BIO 16089859 <GO>}

Well, yes, if you look at our overall financing plan, we have some good headroom to our FFO to debt levels at the rating agencies. So, we have some room there. And as we've said in our equity plan, our plan on equity is $0 million to $100 million over the next few years, so very low equity needs that we would do through internal methods. So we're seeing that we're still in a really good place on our balance sheet from both a debt and equity standpoint.

Q - Shar Pourreza

Excellent. And maybe the last one, housekeeping, to close out, following up on Jeremy's question on the rate case. There's been some data points on kind of higher ROEs could potentially the ranges that kind of have been recommended, and that shows some recognition from stakeholders. Do you anticipate that will start to make an impact, whether in the 24 timeframe or just in settlement negotiations?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we've filed for a higher ROE. I mean, it will be part of settlement negotiations. The pattern, I think that we've seen from the commission in the past that it's a slow up and a slow down. So it'll be -- whatever happens, it'll be extremely gradual. But certainly, we've asked for higher ROEs, and that will be a part of our settlement discussions.

Q - Shar Pourreza

Excellent. Appreciate it. Thanks for taking the questions.

Operator

We'll go next now to Julien Dumoulin-Smith at Bank of America.

Q - Heidi Haugen

Hi. Good morning. This is Heidi Haugen for Julien. Thank you for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, Heidi.

Q - Heidi Haugen

Good morning. Hi. Just my first question and kind of a follow-up to the rate case, what has been the ongoing stakeholder feedback to some of your proposals in the electric rate case, like the IRM? And then following intervener testimony, are you exploring any incremental mechanisms, such as, for example, ring fencing of vegetation management spend or something similar?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So there's been certainly positive support from the staff for the IRM, and we're getting all the right signals that this is something that will be really valuable to our customers and help secure the investments that's necessary to move towards a more resilient and reliable grid that one feels encouraging.

In terms of ring-fencing tree trim, we've essentially done that already through for a good portion of it is ring fenced, and we're executing against that plan. And actually, in good years where we've had surpluses, we've even put more against future mink as we see it as a significant level in terms of reducing customer outages. So I feel that positions are productive positions that we've seen in the various parties and we're going to work hard to get towards a settlement before the middle of October.

Q - Heidi Haugen

Great. Thank you. And then also, can you comment on whether adjusted sales trends year-to-date and how these factors into low-growth forecast or whether this is consistent with your expectation?

A - David Ruud {BIO 16089859 <GO>}

Yes. Early on, our sales have come in exactly as we expected on a weather adjusted basis this year. If we look back to last year, residential sales are down about 3.5% to 4%, and that's really what we had predicted with people returning to work. Our commercial is down a little bit due to energy efficiency and some other things, and our industrial is up as our plants in Michigan are experiencing a lot less downtime. So I think now we've seen that our sales are kind of at the right level or where they are with people returning to work and kind of very consistent with what we have forecasted through the year.

Q - Heidi Haugen

Thank you. That's helpful. And then just really quick last one from me. We've seen some reports this morning of storms causing outages in your service jurisdiction. Just wondering, I know it's early, but can you comment on restoration efforts this morning and kind of severity of these storms relative to expected storm activity or normal storm activity? And then finally, on your level of confidence in achieving guidance in light of storms. I know, we've touched on weather, but specifically on storms. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

So we did have some storm weather move in last night, approximately 92% to 93% of our customers have power at this moment. We've mobilized almost 3,000 of our team members to address the storm conditions. So, we'll wrap most of it up in the next couple days. These types of storms are pretty typical in July and August. So, nothing out of the ordinary at this point in time.

In terms of achieving guidance as I mentioned and Dave has mentioned, we have seen about $200 million of headwinds, and we have a plan that addresses these headwinds. And those headwinds included some of the prior storm activity and cooler weather that we experienced and warmer weather in the winter. Many of the emissions will be one time in nature, but we're learning, as I mentioned, a lot more about our company, which is good for us and for our customers. And the team is achieving the plan, they're right on top of the plan. We've asked them for some significant delivery on initiatives, and they're delivering on that plan, so I'm proud of their accomplishment, and that'll land us at the midpoint of our guidance.

Q - Heidi Haugen

Great. Thank you for taking my questions, and congrats on the results.

Operator

Thank you. We go next now to Michael Sullivan at Wolfe Research.

Q - Michael P. Sullivan {BIO 20972193 <GO>}

Hey. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Mike.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

Q - Michael P. Sullivan {BIO 20972193 <GO>}

Hi, Jerry. Hi, Dave. I just had a quick one on the IRP. I was just wondering, if we could get a little more color on -- you mentioned like studying technology to replace Monroe and kind of what that could look like. I think originally in the plan, you do may have had a gas plant with carbon capture in there. Did that end up making it into the official plan or what sort of other solutions are on table there?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. What we settled on, Michael, was that we would file another IRP in several years, and that would really be, what I would say the key topic for the last two units of Monroe, retiring those two in 2032. So the agreement between the parties and us, of course, was that a lot could change in two or three years, but we will need a dispatchable resource there. We had proposed a combined cycle plan with carbon capture. And so we will have to study that as an option amongst many other options, more batteries, more renewables, but definitely a very large resource that we count on from that part of the service territory to feed our industrial base in Detroit. And so we will need a dispatchable resource that is going to be of high quality and a 24/7 resource. So it will look like that. It may be a mixture of -- it's just hard to tell right now where those studies will take us, but we agreed to study that together as a stakeholder group. So we got time to do that one.

Q - Michael P. Sullivan {BIO 20972193 <GO>}

Okay, great. And then another one on the IRP, I think somewhere in there it was mentioned, potentially looking at IRA funding for the Bell River conversion. Can you talk a little bit about that and how that may help customers or your plan?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, certainly (Multiple Speakers)

A - David Ruud {BIO 16089859 <GO>}

Yes.

A - Jerry Norcia {BIO 15233490 <GO>}

Go ahead, Dave. Go for it.

A - David Ruud {BIO 16089859 <GO>}

Yes. What we mentioned there for the Bell River conversion was some of the DOE funds that are now available for replacing or repowering energy infrastructure that gets ceased and it kind of fits right into what this Bell River conversion is. So along with some other capital investment opportunity we have, we're going to look rate at Bell River and see if there's some DOE funding that can come in and it can give a lower interest rate that can really help at customer affordability as we're building out there prior infrastructure in clear generation plant.

Q - Michael P. Sullivan {BIO 20972193 <GO>}

Okay. And any sinusotomy on like, when that phase out when you know, you can get the funds return?

A - David Ruud {BIO 16089859 <GO>}

It'll -- as we get closer, we will know. It will be over the next few years. Those funds are available for -- if you look at timing four or five years on that. So we have some time to get that, but just opportunity to get some lower interest rate for our customers and well over all expense.

Q - Michael P. Sullivan {BIO 20972193 <GO>}

Okay. (Multiple Speakers) Oh, go ahead.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Mike, as you know, we got a -- we have a long list of capital projects waiting to get into the plan. Also as we find unique ways to finance some of it, it'll allow us to accelerate our journey in other areas, like for example, with our grid. So lots of -- the more opportunity we can find like that make more headroom, we will take full advantage of it.

Q - Michael P. Sullivan {BIO 20972193 <GO>}

Awesome. Thanks again.

Operator

And we'll go next now to David Arcaro at Morgan Stanley.

Q - David Arcaro {BIO 20757284 <GO>}

Hi. Good morning. Thanks for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, David.

Q - David Arcaro {BIO 20757284 <GO>}

Hi. I was wondering just in your arsenal of cost cutting measures or offset measures. I was wondering if there are financial tools that you might have at your disposal that you've considered. Just thinking that CMS did a tender off a recently on one of their outstanding bonds, things like that. Are those things that you would consider for offsetting weather headwinds this year?

A - David Ruud {BIO 16089859 <GO>}

Yes. We look -- we always look across the portfolio for opportunities. We've looked at convertible debt. We don't have much more corporate debt we need to do this year and we'll look for other opportunities like that. But right now, we don't see a similar opportunity that what they brought up. And of course, anything we do, we want to make sure that we maximize the overall value for shareholders too.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. Thanks. And then separately, could you just give an update on what we could expect to see in the updated distribution grid plan this year and what the timing might be for that?

A - Jerry Norcia {BIO 15233490 <GO>}

We will file that before the end of the year as required by the commission. And it'll -- it really addresses four major buckets, the continued surge of tree trim, which we expect to end in three years. But then we'll be on more of a maintenance cycle, so that'll be a key feature. What we call pull-top maintenance, which is replacement of press arms, insulators, equipment that pulls themselves, that'll be a big part of the plan on our aging system. Third is automation, trying to accomplish full automation of the grid in five years. That'll be a major component of the plan. As we've seen more frequent storms and more sizable storms over the years, automation will be a big, big lever for us to boost duration of outages.

And then lastly, as I've mentioned before, 1/3 of our grid is quite old. It's a 4,800 volt system, and that was installed in the early 1900s through the 60s and we need to replace that, that's about 16,000 miles. So that'll be also a part of this updated plan to really accelerate our journey to try and get that done over the next 15 or 20 years. Those are the major components that you'll see. There'll be other things there, but those will be the four big hitters in the distribution grid plan.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Great. That's helpful color. Thanks so much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

A - David Ruud {BIO 16089859 <GO>}

Thanks, David.

Operator

Thank you. We go next now to Alex Mortimer at Mizuho.

Q - Alex Mortimer

Hi. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Alex.

Q - Alex Mortimer

With the new commissioners' focus on electric vehicles, how do you think about the upside for load, CapEx and rate base above what you might currently have included in your plan?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, look, we're a big proponent of transportation electrification for several reasons. One is, it's great for the environment. The transportation sector is, I believe, now the largest emitter of carbon in the economy. So I believe that it's going to be very valuable for that. But secondly, obviously, we get significant investment opportunity from that in the sense that it creates headroom for our investments as we see more load coming on. It is not fundamental just yet, but we expect that near the end of our five-year plan, we'll start to see it be a pretty significant contribution to margin growth, and that'll help finance a lot of these large investments that we're making now to prepare ourselves for the electrification and transportation fleet, as well as the deal with the inclement weather that we continue to see. So we're pretty excited about it.

We're happy that obviously, our new commissioner is very supportive of that agenda, but the other two commissioners are as well, so lots to do there. We also have an administration that's quite supportive of electrification. So, we're pretty excited about the prospects in the future. But like I said, it'll start to become more impactful in our plan, from a margin creation perspective later in a five-year period. From an investment perspective, we're already investing against this opportunity.

Q - Alex Mortimer

Okay. Understood. And then just given the additional headwinds present this quarter, should we essentially understand that all contingency has been exhausted at this point and you now normal weather for the balance of the year to achieve the stated goal midpoint of guidance?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say that, contingency in the electric company has been exhausted. But some of our other BUs still have a bit of contingency, but we are relying on normal weather, both from a temperature perspective and storm activity perspective.

Q - Alex Mortimer

Okay. And then other than weather in a more kind of quote-unquote normal year, kind of, what would get you to the high, middle and low point of your guidance? And is the bias still towards the middle in a more normal year?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say the bias is -- and our target and the bias is towards the midpoint at this point in time.

Q - Alex Mortimer

Okay. Thanks so much. That's all for me.

Operator

Thank you. It appears we have no further questions this morning. Mr.Norcia, I'd like to turn things back to you for any closing comments.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you everyone for joining us today. I'll just close by saying I'm excited about the opportunities we have ahead of us, including our accelerating our path to cleaner generation. And to further strengthen our electric grid and prepare the increased -- for the increased demand electrification on our system. We continue to execute on our plan to achieve our goals in 2023 and remain well positioned for long term future growth. I hope everyone has a great morning and a safe day.

Operator

Thank you, Mr.Norcia. Ladies and gentlemen, that will conclude the DTE Energy second quarter 2023 earnings conference call. Again, we'd like to thank you all so much for joining us, and wish you all a great remainder of your day. Goodbye.