Q3 2019 Earnings Call

Company Participants

- Barbara Tuckfield, Director of Investor Relations
- Jerry Norcia, President and Chief Executive Officer
- Peter B. Oleksiak, Senior Vice President and Chief Financial Officer

Other Participants

- Andrew Weisel, Analyst, Scotia Howard Weil
- Angie Storozynski, Analyst, Macquarie
- Anthony Crowdell, Analyst, Mizuho Securities
- Charles Fishman, Analyst, Morningstar Research
- David Fishman, Analyst, Goldman Sachs
- Gregg Orrill, Analyst, UBS
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Sullivan, Analyst, Wolfe Research
- Praful Mehta, Analyst, Citigroup
- Shahriar Pourreza, Analyst, Guggenheim Partners
- Sophie Karp, Analyst, KeyBanc Capital Markets

Presentation

Operator

Good day. And welcome to the DTE Energy Q3 2019 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead, madam.

Barbara Tuckfield {BIO 19701481 <GO>}

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

With us this morning are Jerry Norcia, President and CEO; and Peter Oleksiak, Senior Vice President and CFO.

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

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Barb, and good morning, everyone, and thanks for joining us today. This morning I'm going to give you a recap of our performance for the third quarter of 2019, a business unit update and provide the overview for the 2020 early outlook and early thoughts on our long-term growth. At EEI, we will provide a deeper review of our long-term growth plans and strategies. Then finally, I'll turn it over to Peter, who will provide a financial review of the quarter, updates the cash, capital and equity, and the details on our 2019 guidance and 2020 early outlook. Then I'll wrap things up before we take your questions.

So let's start on slide four. We continue to make great progress on a number of key fronts. Our third quarter financial results are solidly on track with our plan. Given the strength we have experienced in the first three quarters of the year, I'm announcing an increase to our 2019 operating EPS guidance. We are increasing our 2019 guidance midpoint $0.03 at $6.23. This represents EPS growth from original guidance of '18 to '19 of 8%, which was quite impressive at this point. This increase is due to the strong performance at all of our business segments and the fact that we will have continue to build contingency that will carry us through the fourth quarter. Peter will provide more details on that front in a few minutes.

Today, we're also providing the 2020 early outlook for operating EPS guidance with a range of $6.47 to $6.75. I'm pleased to say, that this is a 7.5% increase over our 2019 original guidance and includes the impact of the recent midstream acquisition we announced earlier this month. Longer term through 2024, we are using the higher 2020 early outlook as a new base for our 5% to 7%, operating EPS growth rate.

I'm also pleased to announce a 7% dividend increase that was just approved by our Board. The new annualized dividend per share is $4.05, up from $3.78. This continues DTE Energy's consistent dividend history, having issued a cash dividend for more than 100 years. This increase reflects the company's strong performance and ability to consistently achieve our goals. The Board's approval of the increase signals confidence in the company's performance and long-term strategic plan.

Turn over to the business update. All of our businesses have accomplishments to note this quarter. DTE Electric recently announced our goal to achieve net zero carbon emissions by 2050. This bold new goal sets the framework to go beyond our existing commitment to reduce carbon emissions 50% by 2030 and 80% by 2040.

DTE Electric's medium- and long-term plans aligned with the scientific consensus around the importance of achieving carbon emission reductions. We are fully committed to dramatically reduce carbon emissions. This is the right thing to do for our customers, our business and the environment. We are doing as much as we can, as fast as we can to provide our customers and the State of Michigan with clean energy, that is affordable and reliable.

Additionally, DTE Electric is progressing on it's voluntary renewable energy program over 400 megawatts have been committed by commercial customers, including Ford, General Motors, University of Michigan, and most recently, the Detroit Zoo. Additionally, nearly 10,000 residential customers have committed to a portion of their monthly bills to renewable power. Along with our carbon reduction plan, our natural gas plant, Blue Water Energy Center is also progressing on plan. We broke ground last year and received all the necessary permits. The plant is a little over 30% complete, with the turbines already on site and an expected in-service date of the spring of 2022.

Moving on to our Gas company, we are continuing to progress with our accelerated main renewal program, we have already renewed a significant number of miles this year and we will complete 180 miles by year end. We are also continue to develop plans and invest an additional system improvements, including our transmission renewal program to support the growth, integrity and reliability of our system. This new program along with our main renewal program showcases DTE Gas commitment to provide safe, reliable service to our customers. These projects will be described in more detail on our rate case filings later this fall.

Now I'll turn over to our non-utilities. At our Gas Storage & Pipeline business, we recently announced the acquisition of midstream assets in the Haynesville Basin. These assets include an existing gathering system and 150-mile gathering pipeline that is currently under construction. This set of assets complements our GSP portfolio and provides a new platform for value creation, which will enable strong growth opportunities for years to come. It has a strong strategic and financial rationale those delivering compelling value to our shareholders. It is underpinned by high quality resource as well-positioned on a North American gas supply stack. We believe that natural gas will play an increasingly important role in meeting energy demand, as we all seek to mitigate climate change in the coming years.

The economics are sound and the transaction is EPS accretive, accelerating the achievement of our five-year growth plan, while maintaining a strong balance sheet and credit profile. And this transaction is one of the drivers at a 7.5% increase in our 2020 outlook. As we mentioned on the call, we are committed to maintaining a 70% to 75% utility mix. At EEI, we will provide the details on how this fits into our five-year plan.

Now let me turn over to Power & Industrial. We also had some major milestones this quarter. In September our P&I business announced the opening of its first combined dairy RNG processing and interstate injection facility. The site processes raw biogas from nearby partner farms into renewable natural gas. Pipeline quality is then injected directly into an interstate pipeline, converting raw biogas to RNG is a win-win, both for dairy farms and the environment.

Capturing this gas reduces the overall greenhouse gas footprint, provides the farms with another revenue stream and help creates a clean, sustainable vehicle fuel that displaces fossil-based gasoline or diesel fuel. We've made great progress in the RNG space over the past few years, which will enable P&I to achieve its long-term goals. So I am feeling really good about the progress we're making in all of our business lines.

Now moving on to slide five, I'll discuss our 2020 early outlook and long-term plan. Today, we are providing the 2020 early outlook for operating EPS guidance with a range of $6.47 and $6.75. This is a 7.5% increase over our 2019 original guidance and includes the -- as I mentioned, the impact of the recent midstream acquisition we announced earlier this month.

Longer term, we are increasing our base and growing from the higher 2020 early outlook through 2024. This will be the new base for our 5% to 7% operating EPS growth rate. We believe growing off the new base provides shareholders with incremental near- and long-term value. We'll provide additional details by segments when we see you at EEI.

With that, I'm going to turn it over to Peter to share our financial results and give you more details on the 2020 early outlook.

Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks, Jerry, and good morning, everyone. Before I get into the financials, I would like to give an update on my Detroit Tigers. My Tigers did come into last place this year, but the good news with that last place finish is they get a first draft pick next year and I'm hoping they find another Justin Verlander. So, overall, I'm looking into the future and feeling pretty good about it.

Unlike my Tigers the financials are consistently strong here for DTE. Let me turn your attention to the financial results and I will start to review on slide six. Total earnings for the third quarter were $351 million. This translates into a $1.91 per share for the quarter and you can find a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings in the appendix.

Let me start my review at the top of the page with our utilities. DTE Electric earnings were $307 million for the quarter. This was $3 million higher than 2018, largely due to the impact of new rates implemented in May, offset by rate base growth cost and cooler weather in 2019. As a reminder, the third quarter of 2018 was one of the hottest quarters on record in our region.

DTE Gas operating earnings were $10 million lower than last year. The earnings change is driven primarily by rate base growth and higher O&M expenses, and this was partially offset by rate implementation. But keep in mind, only a small portion of this new rate was attributed third quarter as a result of typically low volumes in the third quarter.

Let's move down the page to our Gas Storage & Pipeline business on the third row, operating earnings for our GSP segment were $60 million for the quarter. Last year, GSP experienced higher earnings related to AFUDC at NEXUS and higher than planned volumes across the portfolio. This year we have normalized earnings at NEXUS and volumes are on plan. As a result, this quarter is $4 million lower versus the third quarter of 2018. GSP is performing according to plan through the third quarter and we will continue to see the benefit in the remainder of the year from the volumes on Link that continue to ramp up, and the impact of the recent expansions and acquisitions.

On the next row, you can see our Power & Industrial business segment operating earnings were $49 million, earnings are $14 million lower than the third quarter of 2018, and this decrease was due mainly to the REF tax equity transactions that occurred in the fourth quarter of last year. As we communicated previously, we entered into equity partnerships in our REF units and accelerated cash flows of around $100 million per year for three years to support our growth projects. This lowers earnings this year on $40 million versus 2018.

Our Energy Trading business had a strong quarter with operating earnings of $18 million, earnings are higher this quarter, compared to the third quarter last year, due to the higher power portfolio earnings. Our trading company is having another solid year. Year-to-date, economic earnings are on plan and in line with guidance.

Now the appendix contains our standard Energy Trading reconciliation showing both economic and accounting performance. And finally, Corporate & Other was unfavorable $15 million this year, compared to the third quarter last year, and this was due primarily to the timing of taxes. So, overall, DTE earned a $1.91 per share in the third quarter of 2019.

Let's move on to slide seven. Jerry mentioned, we are increasing our 2019 earnings guidance. As you remember, we increased guidance at both DTE Electric and DTE Gas on the second quarter call. So this is the second increase we provided this year. We are experiencing favorability in all the segments with particular strength in the Electric segment, Power & Industrial and Energy Trading. DTE Electric is benefiting from warmer than normal weather, P&I is favorable through the optimization of REF units and Energy Trading earnings came in strong in the third quarter. We feel really good about how strong 2019 is coming in, so we are confident in achieving the increased guidance range.

Now I'll transition to 2020 to discuss our early outlook. On the right side of that slide, we are providing 2020 EPS early outlook midpoint of $6.61 per share. The midpoint of this early outlook provides 7.5% EPS growth from the 2019 original guidance.

On the next two slides, I'll be going over the early outlook for our four largest business units. But before I move on to those slides to discuss the year-over-year drivers, I'll mention that Energy Trading's 2020 operating earnings range of $15 million to $25 million, which is the economic contribution range, we typically target for this business. Also our Corporate & Other segment grows in 2020, with the interest on the equity converts and this returns to a -- our lowest steady state when they are converted to equity.

So now let me move on to slide nine, and I'll start on the left hand side of the page. Our 2020 early outlook midpoint for DTE Electric segment is $766 million, that provides earnings growth of 8.7% over 2019 original guidance. The early outlook includes distribution and generation investment growth. Longer-term the Electric segment will continue to grow by 7% to 8%.

Moving to the right hand side of the page, at our DTE Gas segment, the 2020 early outlook midpoint is $189 million. The 2019 original guidance midpoint was $175 million. The early outlook provides earnings growth of 8% of the 2019 original guidance. So this year-over-year increase is in line with our long-term growth target for DTE Gas and is driven by the continuation of our accelerated main renewal program. Longer-term, we expect the Gas segment to grow at the higher end of our 8% to 9% growth rate.

Now, I'll move on to slide 10, to review our early outlook for our non-utilities. Again, starting on the left hand side of the page of the Gas Storage & Pipeline business, our original guidance for 2019 for this segment was $213 million and increases to $285 million in 2020. Now his represents an increase of 34%. That increase is mainly due to the acquisition of the midstream assets and the prolific Haynesville basin. And previously we said the annual increase to our GSP segment earnings would be approximately 12%, so we've essentially accelerated growth into 2020.

Now GSP had an active year in 2019 acquiring Generation Pipeline, an additional 30% stake in the Link SGG, and of course, the Blue Union and Leap assets. All these will contribute to what we expect to be another strong year at GSP in 2020. We have been planning carefully in 2020 given the market conditions we are seeing and these new platforms will allow us to build growth objectives and re-based the whole company at a higher growth rate.

Now moving into right side of the page. Our P&I segment is $14 million higher in 2020 versus 2019. Now this segment continues to drive earnings and value for the company. This earnings increase is from the work we've been doing over the last few years, as we originate new projects and income to replace REF when it fully sunsets. We have secured additional REF units that will generate strong cash flows for the next two years, reducing equity needs.

As we look out to when REF sunsets to the end at 2021, we remain confident that the back fill REF will occur between these two non-utility segments and the total portfolio, and we'll be well within our target of 70% to 75% utility mix. As you can see, these two non-utilities are bringing a good lift of earnings here in 2020. We will be providing a detailed update at EEI in a few weeks.

Now, on to slide 11 to cover the balance sheet. We expect to issue a total of $500 million of -- in equity here in 2019, including $300 million of acquisition equity financing and $200 million has already been issued through internal mechanisms. For the three years 2020 to 2022, we will be issuing $1.5 billion to $2 billion of equity, including convertible equity units related to the acquisition. And in 2020, we'll be issuing $300 million of equity using internal mechanism. For 2019, we are increasing our cash and capital guidance for this -- for the year, due to the investment and our new midstream assets, and you can find the updated cash and capital guidance in the appendix.

We have a strong credit rating at all three agencies, which is very important to us. S&P is a strong BBB with an excellent business risk profile, and Moody's and Fitch are one notch above S&P. We have reviewed our recent midstream transaction with all agencies and expect to maintain a strong credit rating. S&P has indicated that we will hold a strong BBB and also our excellent business risk profile, so a great outcome there. Fitch and Moody's did take some action on the current rating, Moody's has revised the rating to a Baa2, which falls in line with S&P. We will have plenty of balance sheet cushion with the ratings of both agencies. Our goal is to continue to maintain a strong investment grade credit ratings.

So that wraps up my section on 2019 earnings guidance and the 2020 early outlook. Now I'm going to turn it back over to Jerry to wrap things up.

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Peter. I'll wrap up on slide 12, and then open up the line for questions. 2019 is shaping up to be a strong year as evidenced by our guidance increase. So we expect and continue our pattern of exceeding original guidance for over a decade. You can tell from our 2020 early outlook that we are planning for another strong year -- next year.

The 2020 operating EPS midpoint of $6.61, provide 7.5% growth from our 2019 original guidance. Besides growth rate is driven by strong performance at all of our business units, with healthy growth at our two utilities, continued business development at P&I and the near-term EPS accretion from our recent GSP midstream acquisition. The 2020 GSP's growth is more than double what we had anticipated.

Going forward, we will continue to target a 5% to 7% EPS growth with 2020 outlook as the base of that growth. Our 7% dividend increase for 2020 demonstrates our confidence in the company's performance and long-term strategic plan. Our utilities continue to focus on necessary infrastructure investments, specifically for investments to improve reliability and the customer experience. Our non-utilities continue to position us for long-term growth. Finally, I feel great about our ability to continue to deliver the premium total shareholder returns we have delivered over the past decade.

And with that, I'd like to thank everyone for joining us this morning, and Sergey, you can open up the line for questions.

Questions And Answers

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Sir. (Operator Instructions) Our first question comes from the line of Praful Mehta of Citi. Please go ahead.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Good Morning. So maybe just first starting with the equity that you pointed out on slide 11. The $1.5 billion to $2 billion '20 to '22. I'm assuming in '22 you're including the approximately what $8.25 of mandatory converts?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

They do include the mandatory converts. It will be approximately $1 billion related to the acquisition. But the $1.5 billion to $2 billion does include those converts.

Q - Praful Mehta {BIO 19410175 <GO>}

Okay. Got you. That's helpful. And the 2020 guidance that you provide, all that includes an additional $300 million of equity in 2020. So just wanted to understand the share count that you're using for that 2020 guide?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yes. We have $300 million that we will be issuing next year in 2020 and here in 2019 we'll be issuing the $500 million that we previously disclosed.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. And just, finally, I just wanted to stay on the credit theme, I guess. You mentioned that couple of the agencies clearly expressed some concern. Do you see any scenario where there is additional need to issue equity in a particular business? I guess, how the business, kind of, moves forward from here? Do you expect any need to issue additional equity to, kind of, satisfy the rating agency concerns?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

No. I do not. The S&P rating, in particular, our strong BBB and excellent business risk profile. We were really targeting that. So we are very happy with that outcome. It gives us -- actually we have a lot of cushion even within that current rating and profile. Moody's did fall in line with S&P, a part of the issue with Moody's, they do not recognize the converts as equity. So that was one of the reasons behind the action they took, but with their new rating we have a lot of cushion as well. So we're feeling really good where we're at with the rating agencies at this point.

Q - Praful Mehta {BIO 19410175 <GO>}

All right. Great. Thanks so much guys.

Operator

Our next question comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch. Please go ahead.

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

Hey. Good morning team.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, Julien.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

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

Hey. Good morning. Perhaps, if I can come back to just the transaction last week. Help clarify just a quick follow-up here. I mean, as you think about that $0.45 in the organic growth of that business, just again to come back to off of the run rate '21, '22, 10 times multiple. How do you think about that? That's a -- how do you think about the growth to the five-year outlook first off just to reconcile that and I've got a follow?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Well, I think, Julien, the first thing is that, the transaction supports the 7.5% growth '19 over '20. And then as we have mentioned, we re-established 2020 is the base for the 5% to 7% growth going forward long-term. So we view the transaction not only as providing a lift '19 over '20, but certainly provided an outlook -- an uplift long-term as well in the plan. And filled all the growth needs that we have at GSP.

A - Jerry Norcia {BIO 15233490 <GO>}

I think just to add on, as well as this segment particularly, we are feeling really good with the growth rate going forward. We will be talking in more detail at EEI about this. I can tell you though that we have a previous disclosure out there of 2023, now we're going to be more than achieving that.

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

Got it. Okay. But just from a planning perspective, as you think about the other investments that have been talked about before the NEXUS laterals, Link expansion capital, perhaps, generator and connections. What are you thinking about it? And I know we're getting ahead of the GSP disclosures, perhaps, coming up here in a couple weeks. But I just want to clarify what else are you thinking about out there on GSP?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Well, Julian, again, I'll repeat that it's certainly supports the 7.5% growth '19 over '20, and if you lock in that growth and then grow 5% to 7% from there, this transaction, as well as the other investments in GSP, and let's not forget that the bulk of our investment is going into our two utilities. Those high growth rates from our utilities, high growth rate from GSP, as well as the strong growth of the P&I base will support 5% to 7% growth over the new 2020 base.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. And --

A - Peter B. Oleksiak {BIO 7535829 <GO>}

We'll provide a lot more detail by business segment at EEI.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We will and in this segment in particular, we have some great growth platforms now. So we're not looking for any big new acquisitions. So we have a lot of opportunities, as you mentioned a few just in your question there. So between Link and NEXUS, and now this new Blue Union and Leap Asset, we're going to have a lot of organic growth opportunities, but we'll give more updates here at EEI.

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

Got it. If I can clarify quickly the early '20 outlook, I mean, it looks like it implies even ex-related transaction a pretty healthy degree of growth off the 2019 base for GSP. Can you talk about what's driving that? I mean, as you say, it seems like a 12% type growth number?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, two things, the transaction, as we mentioned is providing significant accretion next year. So it is filling a portion of the growth objective of GSP. But I can tell you we're also planning very carefully for the balance of the platform at GSP in light of market conditions.

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

Thanks for the specific though there for next year.

A - Jerry Norcia {BIO 15233490 <GO>}

That for next year.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

That's for next year, correct.

A - Jerry Norcia {BIO 15233490 <GO>}

So we're working very closely with all the producers, so our plans reflects that -- it will be an -- we'd be very careful.

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

Got it. All right. Well, I look forward to see you guys and hear more in a couple of weeks. Cheers.

Operator

We will now take our next question from Michael Sullivan of Wolfe Research. Please go ahead.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey. Good morning.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Michael Sullivan {BIO 20455557 <GO>}

Yeah. So, first, I just wanted to follow-up on that last question. So is there any more detail that you can give us as to how the base midstream business is growing, sort of, ex the transaction you just did. And then, I think, also the upping the stake in Link and the Generation Pipe just, kind of, what the base business is doing? And how that stacks up to what you were previously anticipating?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Well, what we can say is that if you look at all those investments and that drives a 30%, 34% growth year-over-year in the GSP segment. And overall allowed us to lift our corporate growth to 7.5% year-over-year, and sets us up really nicely long-term that meet our 5% to 7% growth corporately, along with our growth at our utility. So we typically don't describe each platform, but what I can tell you, I'll repeat is that the balance of our platforms we are planning for it very carefully next year in light of the market conditions. So the 34% reflects that and supports our 7.5% growth year-over-year.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay. Thanks. And then switching over to P&I, can you just give any color around the recently acquired REF units that you mentioned. How much of a contribution that was towards 2020 and when those will roll-off?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We did acquire some new units here in the late summer and we did redeploy those at existing sites where some units were sunsetting. So REF is flat. The way to think about is, REF is flat year-over-year. So the growth we're seeing is really around the origination that we've been doing over the last few years. These additional units and REF will contribute about $30 million over the next couple of years, which is a really nice chunk of cash and really helps reduce equity needs over the next three years.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay. And when do those roll-off, the new ones that you just acquired?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. The new ones, as well as all the existing at the end of 2021. It all sunset at that point in time.

Q - Michael Sullivan {BIO 20455557 <GO>}

Great. Okay. Thank you very much.

Operator

Our next question comes from Andrew Weisel of Scotia Howard Weil. Please go ahead.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hey. Good morning, everybody.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Just one quick one, obviously, a nice dividend increase today. My question is going forward, is there any change to the dividend policy, given the mix shift with about 35% of next year's earnings come from -- coming from the non-utilities, and all the credit updates that you talked about earlier? How do we think about the dividend policy going forward?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Well, typically, we have said and continue to maintain that we will grow dividends in line with our earnings growth, but we'll be able to provide a lot more color and detail on that at EEI as to how it will look going forward. But, certainly, it will be in line with --

A - Jerry Norcia {BIO 15233490 <GO>}

With earnings growth.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

-- earnings growth.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We haven't really changed that philosophy, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. So the same policy will continue going forward then?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yes. That's correct.

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. That's all I had. Thank you.

Operator

Our next question comes from Shahriar Pourreza of Guggenheim Partners. Please go ahead.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey. Good morning, Shahriar.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Apologize I jumped on a second late. The comment that you made just around planning in light of market conditions. So like the 33.8% includes that? Is that -- can you just elaborate what you mean by that and is that tied to a specific asset and the producer, so I'm kind of curious if you can just touch a little bit on what you mean by that?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Well, we're looking at all our platform, Shahriar, and certainly, we're operating in a low price environment. So as we continue our conversations and discussions with our partners, we are forecasting earnings growth of 34% in this business line in light of these market conditions. If the market conditions improve things could change. But certainly, we're planning carefully for this business segment at this point in time. In addition to the balance of our portfolio, which we feel very comfortable will help us deliver a 7.5% growth year-over-year.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So this isn't really tied to credit quality or financial conditions of the actual producers, but more of a pricing environment, which --

A - Jerry Norcia {BIO 15233490 <GO>}

Both pricing and production. Yes, that's correct.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. And then just as you guys look at the contracts, what remains of NEXUS. There is a portion of it, obviously, that's still under short-term contracts. Is that -- are these market conditions, do they continue to dictate that you remain within that kind of a tenor of these contracts or is there an opportunity to actually contract longer term?

A - Jerry Norcia {BIO 15233490 <GO>}

Shahriar, we have started to see interest in terming out longer than we've seen in the past. So we find that as an encouraging signal from the market that there is a desire to contract somewhat slight -- slightly longer term. And so we continue to move our contract portfolio on NEXUS in that direction. So we are seeing positive signal there.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. Got it. And let me just ask you one last one, is the signals that you're seeing as far as longer-term contracts, is that predicated on the delay of two existing pipe projects?

A - Jerry Norcia {BIO 15233490 <GO>}

Certainly, we think that could be having an impact.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay.

A - Jerry Norcia {BIO 15233490 <GO>}

And of course, production continues to grow in the Appalachia at this point in time. So we believe that it's a combination of those factors that's creating more interest.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. Thanks, guys. Congrats.

Operator

Thank you. Our next question comes from the line of Angie Storozynski of Macquarie. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good morning. Most of my questions have been asked and answered. But I have a question about your renewable natural gas type of plans and investments. I mean, we've seen this sharp decline in RIN prices. And I'm just wondering, if you guys have a view, whether those prices will go and how it's being depicted in your 2020 guidance?

A - Jerry Norcia {BIO 15233490 <GO>}

So thank you for that question. The bulk of our returns from RNG asset investments are in the dairy sector and most of the value from that comes from the low carbon fuel standard that exist in California to displace essentially diesel and gasoline and the C&G markets. We have seen a decline in the RIN pricings, but we have seen it also start to recover recently. But it forms a small portion of our forecast for these assets and these investments, which with the LCFS, they still remain very attractive assets and very attractive returns.

Our outlook, you asked, how do we feel about how it's looking? Feel that the EPA will issue a volume obligation, there'll be more in line with the supply that's available. And I believe that's why we're starting to see some out of whatever recovery and the pricing for the RINs.

Q - Angie Storozynski {BIO 15115714 <GO>}

Great. Thank you.

Operator

Our next question comes from Sophie Karp of KeyBanc. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

(Technical Difficulty) questions. So just wanted to come back real quick to the midstream segment and the $0.15 accretion that you talked about on the call earlier, when you announced the deal. Is this fair to think about the 2020 is $0.15 of the growth comes from that and the rest from other organic opportunities at this time?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah. That -- actually that's a good way of thinking about it. Yes, the 15% -- part of that 7.5% includes that 15%, for sure.

Q - Sophie Karp {BIO 19699392 <GO>}

$0.15, you mean.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah. $0.15, yeah.

Q - Sophie Karp {BIO 19699392 <GO>}

Okay. Thank you. And then, I wanted to dig a little more into utility earnings. So being roughly flat year-over-year in the DTE Electric rate and I understand there has been a weather volatility last year and this year, but sort of the way you describe it, if we strip the way the weather impacts completely, would that have grown in line with your, kind of, long-term rate that you're projecting? And is there something within the rate implementation growth, of course, that is unusual this year?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah. That's correct. We had -- last year was one of the hottest we've had here -- on record here in Michigan in the region. So you take that away and normalize weather this year, we had positive weather this year of $27 million, but last year was much higher. That was over $60. That -- when you take that away, kind of, look at the rate base growth, it is -- it will be in line with the 7% to 8% that we expect from this segment.

Q - Sophie Karp {BIO 19699392 <GO>}

All right. Thank you.

Operator

Our next question comes from David Fishman of Goldman Sachs. Please go ahead.

Q - David Fishman {BIO 20818121 <GO>}

Hey. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - David Fishman {BIO 20818121 <GO>}

Just going back to the Haynesville acquisition and thinking about the $600 million of growth CapEx. I was just wondering and I apologize if you said this on the call a couple weeks ago. But when you think about the $600 million, I know part of it's related to the Leap growth. But is there something that effectively guarantees that growth happening or is that just based on your expectation for expansions based on Blue Union and where you think demand will be?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Actually, all of the growth is fully contracted with -- within the go. And so, the $600 million plus the other $400 million that we talked about approximately about $1 billion is fully contracted growth over the next 18 months to 24 months.

Q - David Fishman {BIO 20818121 <GO>}

Okay. So that's something you already have the contracts in place for and that will be achieved?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yes. That's correct.

Q - David Fishman {BIO 20818121 <GO>}

Okay. And then, going back to the equity guidance. So I think you discussed this a little bit, but it's $1.5 billion to $2 billion and then $1 billion of that is the convert. And then, it says you can do about $300 million internally. Is that -- are you able to do that kind of level every year of $200 million to $300 million of equity internally to getting you to around the midpoint or higher end if needed?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. David, for the next few years, we should be able to do about $200 million to $300 million, a lot of that is going and did the funding our pension, which we're a few years away from doing that.

Q - David Fishman {BIO 20818121 <GO>}

Okay. And then, my last question, I think, you're alluding a little bit to, I mean, NEXUS, maybe there are some other parties, who are looking to potentially, kind of, term out those contracts, which is good. But also just thinking about the Generation Pipeline and connecting there. Could you remind us what those contracts, kind of, look like, if they are -- are they five years or they in the double digits? And then, also if you were to contract with them, would it likely be the off-taker side or would it be a producer looking at the contract on NEXUS?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, the Generation Pipeline, just to remind everyone is very proximal to the NEXUS pipeline and it stands on its own with its own long-term contracts, and it gives us a nice return and nice accretion. The plan is to connect that asset with several miles of pipe to NEXUS, and that will provide approximately for a $400 million to $500 million a day outlet for that pipeline. But again, just to repeat, we do have long-term contracts, they are about 13 years in length, so very nicely contracted is a pipe with demand charges.

Q - David Fishman {BIO 20818121 <GO>}

Okay. Great. Thank you. Appreciate it and congrats again.

Operator

Our next question comes from Paul Fremont of Mizuho. Please go ahead.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey. Good morning guys. It's Anthony Crowdell.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, Anthony.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hi. You may have addressed this on the actual call maybe two weeks ago. But one is just if you -- what makes you confident on the competitiveness of the Haynesville? And then, second, just you could help me understand the difference between minimum volume and commitment charges, and also a demand charge?

A - Jerry Norcia {BIO 15233490 <GO>}

So let's start with the competitiveness of the Haynesville. We had the opportunity through this transaction to review all 1,700 of their proposed drilling locations and we did that ourselves as long -- along with two reserve consultants. And we can tell you after that analysis, we felt that the resource is extremely strong, whereby there are at least 10 years of drilling available at sub $2 prices. So that's one.

Number two, the pipeline is being constructed, creates great interconnectivity with the Gulf Coast markets, including the industrial power and the emerging LNG markets. And the proximity to those markets provides a very large basis advantage that other resource basins don't enjoy. So we felt that the quality of the resource, the interconnectivity of the resource with growing markets. And three, the positioning of the resource, which provides it with basis advantage, create a really nice package of high returns and strong cash flows.

In terms of MVC's and demand charges they are essentially the same thing. MVCs are monthly demand charges, just that in the gathering business they call it a minimum volume commitment and in our pipeline businesses including the pipeline that we're building for this asset, they call it a demand charge, but they are essentially equivalent in nature.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks. Thanks for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Our next question comes from Gregg Orrill of UBS. Please go ahead.

Q - Gregg Orrill {BIO 1532939 <GO>}

Yes. Thank you. Apologize if you've said this already, but how much are you issuing a new converts related to the acquisition and when?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah. We'll be issuing approximately $1 billion and we're going to finalize the exact dollar amount here shortly, but it will be about $1 billion.

Q - Gregg Orrill {BIO 1532939 <GO>}

And when would that be?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

It will be here in the fourth quarter. We want to close this transaction early December. So we're going to be looking at the market and working conditions, but it will be between now and then.

Q - Gregg Orrill {BIO 1532939 <GO>}

Thank you, Peter.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah.

Operator

Our next question comes from Charles Fishman of Morningstar Research. Please go ahead.

Q - Charles Fishman {BIO 4772353 <GO>}

Good morning. I only have one left. On the P&I segment, the -- I didn't hear you talk or give any update on any industrial projects. I think the -- with the last one you had was the Ford complex or is that something you want to wait the EEI for or anything you can talk about now?

A - Jerry Norcia {BIO 15233490 <GO>}

We essentially have secured three co-gens this year. One we were -- two were public about Stelco, in Ontario with their Lake Erie Works facility. We signed a long-term arrangement with them to develop a co-gen facility. And then we also have a commercial customer that we haven't yet disclosed and that we signed a purchase agreement with, the purchase of co-gen facility. And lastly, we signed an operating agreement with Wayne County for their correctional facility to operate their Industrial Services assets. In addition to that, we also close two RNG projects in Wisconsin this year. So three co-gens and two RNG projects, which gives us to be approximately the $15 million origination target that we are pursuing this year.

Q - Charles Fishman {BIO 4772353 <GO>}

So the -- I guess, gas price somewhat bearish outlook the people have, that is a little bit of a tailwind for these co-gen projects, correct?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. There's really two factors. One is the fact that gas prices continue to be at low levels. And secondly, electric rates continue to rise, so the spread between gas and electric to produce power continues to widen and that creates an attractive opportunity for customers that have, one, a large electric need, and two, are usually typically have steam host as well.

Q - Charles Fishman {BIO 4772353 <GO>}

So it's -- when a customer has that thermal need is where you see the opportunities?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Q - Charles Fishman {BIO 4772353 <GO>}

Got it.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. There is a high thermal need and a large electricity need. Those two factors make co-gens very attractive.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. Got it. Thank you.

Operator

Thank you. And now I would like to turn the call back over to Jerry Norcia for any additional or closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I'll wrap up by thanking everyone for joining the call. 2019 again is shaping up to be another very successful year. We look forward to seeing many of you at EEI in a few weeks, where we will describe in more detail, our growth strategies and our five-year outlook for each business line. We'll also describe our financing and dividend strategies in more detail. DTE story will continue to be a strong one into the future that will deliver premium shareholder returns. So thanks again for joining us and have a great day.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.