Q3 2023 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Scotiabank
- Anthony Crowdell, Mizuho
- David Arcaro, Morgan Stanley
- Durgesh Chopra, Evercore ISI
- Gregg Orrill, UBS
- Jeremy Tonet, JPMorgan
- Julien Dumoulin-Smith, Bank of America
- Ryan Levine, Citi
- Shahriar Pourreza, Guggenheim Securities LLC
- Sophie Karp, KeyBanc Capital Markets
- Steve Fleishman, Wolfe Research
- Travis Miller, Morningstar

Presentation

Operator

Good morning. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy Third Quarter Earnings 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. Barbara Tuckfield, Director of Investor Relations, you may begin your conference.

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>}

Thanks, Barb, and good morning, everyone, and thanks for joining us. I'll give a brief business update, and Dave will provide a financial update before we take your questions.

Now let me start by emphasizing a few points, including my confidence in the company and our long-term opportunities. As you know, we have faced unprecedented headwinds this year, and these events have impacted our financial plan by $370 million. However, the combination of these headwinds is truly one-time in nature, and the fundamentals of DTE remain strong. We have a solid record of achieving our financial targets and we know how to do so without sacrificing safety or reliability.

This year alone, we have offset $270 million of earnings headwinds from the unprecedented combination of unusual storm activity, unfavorable weather, and a low-rate order driven by a difference in a sales forecast. The fact that we have been able to offset most of these challenges while maintaining service excellence is a clear proof point of our highly engaged team and commitment to operating excellence.

DTE also benefits from strong cash flows and a solid balance sheet that support continued investments that will build the grid of the future and drive the clean energy transition.

Our long-term growth plan is robust with numerous opportunities for these investments. And as I said, we have an incredible team of highly engaged employees who are committed to our customers and who know how to execute safely and efficiently. Our team continues to operate a top decile engagement levels as measured by the Gallup organization.

I'm proud that our team's excellence in this area was recognized for earning the Gallup Exceptional Workplace Award for the 11th consecutive year. My confidence in DTE and our ability to deliver for our customers while being a stabilizing force in our communities and creating significant sustainable value for investors over the long-term is unwavering. We remain focused on continuing to invest the strategic capital that further supports improved grid reliability in the face of changing weather patterns and further electrification and the transition to cleaner sources of generation.

The heightened storm activity this year also highlights the importance of our investment plan, and DTE is delivering on its commitment to automate, harden, and rebuild the grid to improve reliability by over 60% over the next five years. Our recently filed distribution grid plan provides a roadmap to improve reliability and automation of our system. Also supporting our investment agenda is the IRP settlement. This plan outlines our investment in Michigan's cleaner energy future while remaining very focused on customer affordability.

We are progressing toward a constructive outcome on our electric rate case. This case is critical to support the customer-focused investments that are needed for improved reliability and cleaner generation. Our customers and political leaders, including the Governor, legislators and municipal leaders are demanding better outcomes and reliability during heavy storm periods. This doesn't happen unless we execute our strategic investment plans to modernize and automate the grid. We also need to resume our maintenance schedule on non-critical work that we deferred on a one-time basis this year.

It is essential to resume this important scheduled work to continue delivering safe and reliable service. We met with the intervenors in the electric rate case and outlined the importance of the infrastructure investments we need to make while also gaining a deep understanding of their priorities. While we were not able to reach a settlement in this case, we have put a compelling case together for the work we need to do for our customers. We are confident that the Michigan Public Service Commission will appropriately support the investment that is needed in the state. The final order is expected in early December.

As I mentioned, our company faced $370 million of unprecedented headwinds this year. This represents nearly 30% of our total earnings forecast. We said on the second quarter call that we were in a position to deliver at the midpoint of our operating EPS guidance range if normal weather and storm activity occurred through the remainder of the year.

However, unfavorable weather and additional severe storm activity did occur in the third quarter, and these latest challenges brought over $100 million of additional headwinds to our financial plan.

So, we are revising our full-year EPS guidance midpoint from $6.25 per share to $5.75 per share. This is not the type of result that my team and I like to report to you. In my 10 years as a number one and number two person in DTE's leadership team, we have consistently met or exceeded our targets. So, you can imagine that we don't like reporting these results to you today. As I mentioned, we are continuing to wait for a final order on our electric rate case. Therefore, we will delay providing the forward-looking disclosures that we typically provide on a third quarter call or at the EEI conference until we get a final resolution in the case.

We will then provide these disclosures in December, including our 2024 early outlook and dividend, extending the long-term EPS growth rate through 2028, updated five-year capital plan, updated three-year equity plan, and our long-term operating earnings for DTE Vantage. Let's turn to Slide 5. As we discussed through the second quarter, the company experienced the impact of the lower-than-expected rate order that we received at the end of last year, driven by a difference in sales forecast of approximately $100 million, followed by $92 million in impact from storms, including the worst ice storm in nearly 50 years, an unfavorable weather of $42 million at Electric and $31 million at Gas.

On the second quarter call, we said DTE Electric was achieving offsets for over half of its headwinds through focused one-time cost reduction efforts without sacrificing safety, reliability or customer service. And as a result, we noted that Electric would likely fall below its full-year guidance. However, we had favorability at each of our other business units, helping to overcome the remaining headwinds to achieve our full-year EPS guidance.

So, at the time, we were on track to be at the midpoint of our guidance range if we had normal weather and storm activity, and we had already consumed our contingency. In the third quarter, we had additional pressure of $53 million from storms and $53 million from cooler than normal summer weather. So far this year, we have faced five catastrophic storms, which is double compared to the average number of catastrophic storms over the last five years. We're very proud of our team's efforts to safely restore power during each of these weather events.

That being said, these restoration efforts are costly, and while we do budget for storm costs, the number of catastrophic storms this year, including a historic ice storm, significantly impacted DTE Electric earnings. Along with storm activity, we have seen unfavorable weather in our service territory for Electric and Gas this year. The winter was the fourth warmest winter since 1960. The summer was one of the coolest in nearly a quarter century. This was very different from the record heat that was experienced across most of the country.

Much like for storms, we prepare for unfavorable weather scenarios during our planning process. Our lean and invest plans are structured to cover weather variability. This year, the winter and summer weather combined was much more unfavorable than we have seen. It has been an unusual year, having both high storm activity at Electric and unfavorable weather at both of our utilities. This dynamic has certainly created a significant challenge to our company in addition to the low-rate case order.

So, we faced a combination of three major headwinds. Had only two of these occurred, we would have been able to achieve our original EPS guidance target. Having all three factors stack up against us exceeded all reasonable planning scenarios. As a matter of fact, we had our statisticians look at the probability of greater than one standard deviation temperature patterns of both utilities and the number of storm customers impacted all occurring in the same year, and it is a once in a 50-year probability.

Overall, the team has made excellent progress on one-time management actions across the entire company and finding opportunities within our portfolio. However, with the additional challenges in the third quarter, we are now lowering the operating EPS guidance for 2023. Now let's move to the opportunities we have in front of us on Slide 6. DTE is on track to make significant customer-focused capital investments across our businesses. Two important factors affecting our grid are climate change and emerging electrification technologies.

We need to build the grid of the future to ensure we can continue to provide clean, safe, reliable and affordable energy. We are also making investments to transform the way we produce power as we shift towards renewables and natural gas and away from coal generation. An important part of our clean energy program is our voluntary renewable program, MIGreenPower. This program continues to grow with a number of new large customers subscribing this year. We have 2,400 megawatts subscribed, including over 90,000 residential customers.

Highlighting our success, the National Renewable Energy Laboratory has recognized DTE as having the largest green tariff program in the country, fulfilling more load under contracted subscriptions than any other program. Additionally, at our Gas utility, we continue our important main renewal work, which further reduces greenhouse gas emissions. DTE makes all of these investments with a sharp focus on customer affordability.

Our distinctive continuous improvement culture drives cost management. The shift from coal to natural gas and renewables also helps to further reduce O&M costs. Our diverse energy mix helps to reduce fuel costs as well and allows us to maintain flexibility to adapt to future technology advancements. The IRA supports this transition to renewable energy while achieving customer affordability goals and further enhances opportunities for growth at DTE Vantage.

Before I turn the call over to Dave to read more details on the financials, I want to reiterate what I said at the start of the call. DTE has a strong operating foundation and an excellent team with a proven record of execution, a long runway of investment opportunities, and a solid balance sheet to support these investments. So, we remain well positioned to deliver premium total returns while providing cleaner, reliable and affordable energy to our customers.

Dave, over to you.

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone. Let me start on Slide 7 to review our third quarter financial results.

Operating earnings for the quarter were $298 million, this translates into $1.44 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 $268 million for the quarter, this is $95 million lower than the third quarter of 2022. The main driver of the earnings variance was the cooler weather and higher storm expenses that Jerry discussed.

Other drivers include higher rate base costs and accelerated deferred tax amortization in 2022. This was partially offset by the one-time O&M cost reductions that we implemented in 2023. Moving on to DTE Gas, operating earnings were $18 million higher than the third quarter last year. The earnings variance was driven by one-time O&M cost reductions and increased IRM revenue in 2023, partially offset by higher rate base costs.

Let's move to DTE Vantage on the third row. Operating earnings were $56 million in the third quarter of 2023. This is a $30 million increase from the third quarter last year, primarily due to new RNG projects and earnings related to steel projects. On the next row, you can see Energy Trading finished the quarter with earnings of $31 million. We had continued performance favorability this quarter due to robust contracted premiums in our physical power portfolio. This favorability is expected to continue for the remainder of the year.

Finally, Corporate and Other was unfavorable by $17 million quarter-over-quarter, primarily due to timing of taxes and higher interest expense. Overall, DTE earned $1.44 per share in the third quarter. Let's move to Slide 8 to go over our revised 2023 guidance by business unit. The continued unfavorable weather and storm activity is causing us to decrease our operating EPS guidance for the year. As we said on the second quarter call, Electric would be below its original guidance range and Gas, Vantage and Energy Trading would be above their guidance ranges.

We are now decreasing the guidance range for DTE Electric, and we are increasing the guidance range for DTE Gas, Vantage and Energy Trading. Overall, this results in a decrease to our DTE operating EPS guidance midpoint. As we discussed, we faced significant headwinds at DTE Electric throughout the year, starting with a challenging rate case followed by unprecedented unfavorable weather and storm activity.

We've also continued to see favorability at our other business units. Favorability at DTE Gas was driven by one-time O&M cost reductions. At DTE Vantage, we have seen stronger RNG pricing and new RNG projects placed in service, as well as opportunistic contracted sales and additional favorability in the steel business.

Energy Trading is seeing favorability in its contracted and highly hedged power portfolio, which will continue to provide additional upside. Again, all business units implemented one-time O&M cost reductions and also benefit from one-time corporate O&M cost reductions that cascade to all the business units.

As we faced approximately $370 million in total headwinds, the efforts of our team have offset much of this challenge, but we are revising our operating EPS guidance from midpoint of $6.25 per share to a midpoint of $5.75 per share. I just want to stress again what a remarkable achievement it is for our team to offset $270 million of challenges this year. We're proud of what our team has accomplished, and we feel this experience makes us stronger as we continue to focus on improving our processes and better serving our customers.

It's also important to reiterate that the combination of these three distinct headwinds is truly one-time in nature and doesn't impact our long-term fundamentals. So, we remain solidly positioned for long-term growth. Let's move to Slide 9 to highlight our strong balance sheet and credit profile. We continue to focus on maintaining a solid balance sheet, strong metrics, and a solid investment grade credit rating, which is supported by continued strong cash flow. This will ensure we remain well positioned for continued growth.

Let me wrap up on Slide 10 and then we'll open the line for questions. Our team continues our commitment to deliver for all our stakeholders. 2023 operating EPS guidance is updated to reflect the additional headwinds experienced in the third quarter. Our team continues to execute the plan to offset the majority of the unprecedented headwinds in 2023, remains highly engaged and focused on delivering for our customers and our communities.

The electric rate case continues to advance as we look forward to a constructive order in early December. Our robust capital plan supports strong long-term operating EPS growth as we execute on the critical investment that we need to make for our customers for improved reliability and cleaner generation while focusing on customer affordability.

DTE continues to be well positioned to deliver the premium total shareholder returns that our investors have come to expect with a strong balance sheet that supports our future capital investment plan. As Jerry mentioned, we look forward to sharing the details of our long-term plan after the rate case is finalized.

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

Questions And Answers

Operator

(Question And Answer)

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

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, guys. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

A - David Ruud {BIO 16089859 <GO>}

Hi, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. Morning, morning. So, Jerry, just appreciate the tough decisions this quarter. I mean, obviously you removed the language around the 6% to 8% growth rate, but reiterated the long-term fundamentals and you stepped a bit of outside of the normal cadence as we think about the '24 early outlook. I guess can you just maybe elaborate a bit more on your thoughts going into '24 as we think about the cadence of updates for guidance and CapEx? I mean, obviously the rate case decision is a gating item for '24. Would that be the new base for long-term growth, and will you extend the growth rate into '28? Just a little bit more color would be helpful.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. You bet, Shar. So, certainly the fundamentals of our business remain really strong in the long-term. The opportunities to make tremendous amount of investment in our grid and our transition to clean energy, those -- the opportunity remains intact. We are awaiting the commission order and that will happen in the first week of December. The next scheduled meeting is December 1, but it has to be essentially dealt with before December 10.

So, sometime in that first week of December, we expect an order. We feel it's prudent at this point in time to post that rate order as when we will basically roll out shortly right after the order. We will roll out our 2024 guidance, our long-term growth rate, and also our capital investment profile, and we'll do that for both utilities and Vantage. So, that's the plan going forward, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it.

A - Jerry Norcia {BIO 15233490 <GO>}

We just don't want to get ahead -- we don't want to get ahead of the regulatory process at this point in time.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Right. No, that makes sense. But just I guess curious, like obviously this year had anomalistic conditions, right? So, when you guide, would '24 be the base and would you extend out?

A - Jerry Norcia {BIO 15233490 <GO>}

I guess typically what we would --

Q - Shahriar Pourreza {BIO 15145095 <GO>}

(Inaudible)

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Typically, what we do share, and we plan to do the same going forward, is we will go back to original guidance for 2023 that we've posted and then we will grow from there.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it.

A - Jerry Norcia {BIO 15233490 <GO>}

Does that answer your question?

Q - Shahriar Pourreza {BIO 15145095 <GO>}

And then just -- it does. Thank you, Jerry. That's helpful.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

And then just lastly, the $270 million offsets --

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Yes. Sorry, Jerry. Go ahead.

A - Jerry Norcia {BIO 15233490 <GO>}

I was going to say, the reason for that is because much of what's happened this year, as you said, we view as anomalous and one-time in nature, and that's why we will go back to the original '23 guidance and build our growth rates from there.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. No, thank you for that. And then just on, lastly, the $270 million offsets. That's obviously a pretty impressive number. And you called the response out as being one-time kind of events. I guess do you anticipate, under normal weather, the full amounts could be replenished or is there some carryover of savings through '24? I mean, I guess is there deferred maintenance that would need to come back? I'm just trying to get a sense about these cost cuts and also the potential read through they may have on the GRC as you try to get this case over the finish line with some very tough interveners. Thanks, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you. So, what you'll see is that much of the cost will flow back in. Some will stick. I think when you go through one of these periods of severe challenge, you always learn new things about your company. But much has to flow back in. So, maintenance that wasn't critical this year becomes very critical next year that we can't continue to postpone.

We've made that very clear in our final reply briefs. And I think we'll see much of that flow back in. Now some of that will stick, will help for next year. And -- but we plan to return to our normal planning process where we would anticipate certain levels of storm activity and certain levels of weather variation in our planning going forward. So, that is our goal at this point in time.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Perfect. Let me let me jump back in the queue. I'm sure that there's enough questions. Thank you, guys, so much. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - David Arcaro {BIO 20757284 <GO>}

Hey. Good morning. Thanks for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Morning.

Q - David Arcaro {BIO 20757284 <GO>}

Could you elaborate a bit on the settlement discussions that you had in the rate case? Just what challenges may have arisen that prevented you from getting across the finish line there? Any kind of learnings? And does that potentially continue forward into future challenges and other rate cases in the future or are there unique factors here that came into play?

A - Jerry Norcia {BIO 15233490 <GO>}

Certainly. So, as you know, we had a very successful integrated resource plan settlement, and then we quickly transitioned to our rate settlement discussions. I would say this, that the major agencies that would be involved significantly in representing the economic interests of our customers were at the table, and we were moving towards settlement.

But that was a handful of parties, key parties, very important parties, but there was another 25 or so parties that were interveners in a rate case that essentially did not want to engage in rate case settlement discussions. That was unfortunate, but I think the practice in Michigan so far is not to pursue contested rate settlements.

When you say what learnings are there that might be something we have to explore in the future, is the ability to pursue or contest the great settlements when you have the bulk of the economic interest represented at the table. Not a common practice in Michigan, but a common practice in other jurisdictions.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. That's helpful context. Were there specific aspects within the case, whether it was the undergrounding, the IRM, or specific requests here that led to the sticking points with those other interveners?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say not. So, I think it simply said it was a reluctance to engage. I would say that the handful of parties that did engage, we were moving towards what I would call a productive outcome. So, we are feeling positive until, I would say, the last moments of the discussions where there was a reluctance to engage by some of the other parties.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Understood. Thanks for that color. And thinking about the go-forward earnings power, looking at the 2023 Vantage and Trading results, quite a bit stronger than the original guidance on 2023. Was wondering if those could be considered new baselines for growth, or if you could give a sense for how much one-time or non-repeatable strength we saw in those two businesses. Do those also kind of revert to the original 2023 midpoint as you think about the growth going forward?

A - David Ruud {BIO 16089859 <GO>}

Hi. This is Dave Ruud. Yes, we did see some strong growth in those businesses this year. At Vantage, we had three new RNG projects, a new custom energy services project commencing the growth that we expected. There also was some one-time things in there, as we mentioned, on some up to six steel contracts that we did this year, too. So, we look forward on Vantage. We will be growing that off the 2023 original guidance, but still seeing some great growth there and some great opportunity this year.

Trading also, like as you saw, is having a great year, and we've increased the guidance there, too. A lot of that favorability that we've seen has been through contracted, like full requirement services, and also in our Gas business. And we've seen some of these higher margins on these contracts, and we'll be looking at what that means for 2024. But right now, not increasing any of the guidances, but we'll give you a full update. As Jerry mentioned earlier, we'll give you a full update on that in December.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Great. Thanks so much.

Operator

Your next question comes from the line of Durgesh Chopra with Evercore ISI. Your line is open.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning team.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Thanks for all -- good morning, Jerry. I really appreciate all the detail that you provided around the cost mitigation impacts. And so, thank you for that. Hey, listen, I just wanted to kind of think through the implications of a year like this, a pretty aggressive year on storms, to your go-forward earnings profile. Can you remind us? So, this year, right, when you add all those numbers together, it's $150 million in impact, which is roughly 10% of your earnings, normalized earnings power this year. Can you remind us what level of allowance or costs are baked in for storms in this current ongoing rate case and going forward?

A - David Ruud {BIO 16089859 <GO>}

Yes. In the -- in our rates, there's about $55 million pre-tax that's in there for storms.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it.

A - David Ruud {BIO 16089859 <GO>}

But we budget differently than that and build in some contingents as well.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Are there other opportunities like trackers or deferrals that you could pursue, or would that be more legislative?

A - Jerry Norcia {BIO 15233490 <GO>}

I think those trackers and deferrals have been pursued in the past, Durgesh, and can be pursued in the future. Like as a matter of fact, I think our sister utility is pursuing some of that as well in their current rate case.

Q - Durgesh Chopra {BIO 20053859 <GO>}

And is that part of your current request as well, like are you asking for in this case?

A - Jerry Norcia {BIO 15233490 <GO>}

It is not in our current rate case at this point in time. But as Dave said, typically we budget for one standard deviation and weather variances that deal with weather variances as well as storm activity variances. I think what was unusual this year is that we had a much cooler than normal summer line up with excessive storm activity, which is very unusual and very anomalous, and beyond our planning scenarios certainly. And when we think about the totality of it, we had about 30% of our earnings challenged, and we responded with 21% response. And so, pretty significant response in light of extraordinary challenges. So, we view it as a very anomalous year.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Okay. Perfect. I appreciate the color. And then maybe just quickly hit on storm investigation. I know the Liberty Consulting Group was hired. What do you expect as next steps there, and when could we see sort of a final recommendation timeline there?

A - Jerry Norcia {BIO 15233490 <GO>}

So, there's been a very positive set of interactions with Liberty. The exchanges have been very collaborative. They are requesting information, which we're providing. I think the next series of steps is they'll conduct some field work as part of their tabletop exercise, and we expect a report sometime next summer, final report.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Thank you so much, guys. I appreciate the time.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Jeremy Tonet with JP Morgan. Your line is open.

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. I think the question has been touched on a number of different ways, but I just wanted to be very precise and very clear here as we think about the base business, as we think about going forward. There's a rate case. It's going to have some impact on 2024, unknown at this point. But if you think about the base business past 2020, '24, does DTE still grow 6% to 8%?

A - Jerry Norcia {BIO 15233490 <GO>}

Jeremy, we're going to have to finalize all those details. I know everybody is anxious to get those details, but again, we certainly don't want to get in front of the regulatory process. What I will say at the highest level is all of the opportunities that we've discussed before that supported the long-term growth of our company are all there today. And what we need is strong support from the regulatory construct to support '24 and beyond for that matter.

So, we're waiting for a strong signal, and we'll continue to move forward and execute these grid investments for our customers. What I will tell you is that the Governor, our customers, our commission, legislators, every Mayor I talk to are clamoring for these investments. This is something that our customers want. And the rate relief that we're requesting is not extraordinary.

If you look at just the capital that we're deploying, some of the interest expense that we have to recover, as well as the correction in the sales figure, since May of 2020, we'd be looking at an increase of roughly 1.6% per year, well below national inflation rates of 5.5% since that period in time and well below some of our peers where they've seen over 5% bill growth since that period of time, since 2020. So, we feel like we're delivering a very compelling, and what I would say, competitive package to pursue for the commission, and we're confident that we get strong support for the investments we need to make for our customers.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, got it. Understood. Maybe pivoting a little bit here. As we look forward, there's been just a change in regime and rates being -- rates moving up a lot recently. And we're kind of tracking HoldCo refinancing risk in note that DTE has a number of hedges in place to mitigate some of this risk. I was wondering if you could provide specific details on those hedges as far as what the refi looks like. Is this something that's just kind of a short-term hedge? Is this the longer-term hedge? What type of levels? Just trying to get a sense for how much of a headwind refinance risk at the HoldCo could be.

A - David Ruud {BIO 16089859 <GO>}

Hey, Jeremy. This is Dave. So, I'll first say at the highest level, we've incorporated these increasing interest rates in our plan and had considered it and contemplated it and had the flexibility in our plans prior to this. So, we're monitoring this, and we'll continue to manage the interest expense increase through timing and structure and tenure of our future debt. Now you're referring to the parent debt that we have that will come due at the end of '24. (Inaudible) We have put in hedges for over a quarter, 25% of that, through the year. And we'll continue to look for opportunities and monitor the market for additional opportunity for that as well.

Q - Jeremy Tonet {BIO 15946844 <GO>}

So, just to clarify, that 25% would be whatever the new tenure of that refinance would be, be it 3, 5, 10 years, 25% is hedged for that length of time?

A - David Ruud {BIO 16089859 <GO>}

Right.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. And then maybe just as you think about forward planning in weather, and you provided a lot of helpful thoughts there, that's been great, thank you. But if you think about, I guess, the sample set that you apply the standard deviation against, is the reason to revisit that just given the severity of this year, or anything could happen in one year? Just wondering how to think about, I guess, how to best budget for storm impacts in future years?

A - Jerry Norcia {BIO 15233490 <GO>}

Typically, what we do is we look at our 15-year weather patterns and we build a plan. After that, our rates are also built off a 15-year average, if you will, and then we build in a one standard deviation in weather for consumption. And in addition to that, we carry a storm budget that's based typically on a five to seven year average. So, we'll -- we're revisiting some of that as we speak as we've experienced more severe weather patterns in the last handful of years. So, that'll continue to track against those types of averages.

That's how we build our portfolio, and we've been quite successful in delivering in the last 16-years by using that approach, and even in the last five to seven years. And so, we'll continue with that approach, and we'll continue modifying it as we see patterns continue to change. And we roll forward our 15-year averages for weather, and that's just temperature that I'm talking about there, CDDs and HDDs, and then we'll also look at storm activity as it continues to build, as it has. So, we'll continue to increase contingencies for that.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thank you for all your thoughts today, and looking forward to seeing the team at EEI.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

A - David Ruud {BIO 16089859 <GO>}

Thanks.

Operator

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

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

Hey, team. Good morning. Thank you, guys, for the time. I appreciate it. Look in the same vein as Jeremy was just --

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Julien.

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

Hey. Good morning, Jerry. Just in the same vein as Jeremy was just asking about on offsets here, you've got this $1.31 of offsets here against these headwinds. How do you think about the sustainability of them, but also, how do you think about some of the pull-forward items that you pulled in '23 that could come back in '24? I get that there's a question about sustainability going forward of some of these items. But how much flip back, call it, in a one-time basis in '24? How do you think about that and setting up a baseline here as you think about rolling forward, if you will?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure.

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

And again, what kind of items are they? I'll leave it open ended.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. No, good -- great question, Julien. So, some portion of the $1.31 will be sustainable, but I just want to make it clear that we're not slow -- snow plowing incremental costs into 2024. We will return to our normal levels of maintenance. As you know, over the many years where we had favorability in our plan, we pulled forward maintenance and banked it. So, we were able to take these one-time pauses and non-critical preventative maintenance. And so -- but next year, we're going to return to our normal pattern. So, I don't want people to think that we're snow plowing any kind of cost into 2024. We'll return to normal levels of maintenance expenditures. Hopefully, that helps, Julien.

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

Right., i.e. it's not an outsized year '24 to get back to a run rate in '25, if you will. Just to make sure --

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct. That's correct. We're going back to our normal run rate that we otherwise would have had in '22 and '23 and returned to normal maintenance level of expenditures.

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

Got it. Excellent. And Jerry, in the same direction of things, residential weather norm sales off 2.6% year-to-date here. I mean, that seems like an outsized impact, but obviously with weather years -- with outsized weather impacts, it's hard to be precise. I mean, how do you think about that impacting '24 onwards and whatever this return to office environment is for you guys on resi?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So, I'll start with the weather part, and I'll let Dave talk about residential load and what we've seen this year compared to what we had forecasted for this year and what we plan to forecast for next year. So, from a weather perspective, Michigan, believe it or not, when we do the analysis, was the only state in the Midwest that experienced cooler than normal weather. And by more than one, cooler than normal weather for sure. And then we also experienced more than one standard deviation in warmer than normal weather in the winter.

So, very unusual combination. And then package that with excessive storm activity, twice the number of catastrophic storms, and that's essentially a unicorn of a year. And we had -- I had my statisticians roll through that analysis and it's a 1 in 50-year probability.

So, of course, we'll work with the 15-year averages. It'll impact our 15-year average and our five-year storm activity average, and we'll build that into our plans going forward. But Dave, you want to comment on residential sales?

A - David Ruud {BIO 16089859 <GO>}

Sure, yes. Our sales this year have come in pretty much as expected for the year, consistent with our budget, consistent with the rate case filing we had. As you said, residential is down a little as we knew people would be returning to work, so we saw that we saw that come down. As far as our forecast, we, in the rate case, we forecast residential sales remain somewhat flat and there's been no dispute in our forecast going forward here either. So, we should get that -- that shouldn't be an issue here coming up in this rate case.

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

Okay. All right. Fair enough. And so -- but you see consistent pressure going into '24 just as you think about building out the plan on '24 and '25 on resi or is it more of a transient piece?

A - Jerry Norcia {BIO 15233490 <GO>}

We won't see pressure from the residential forecast in '24.

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

Okay. All right. Great. Thank you, guys.

Operator

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

Q - Anthony Crowdell {BIO 6659246 <GO>}

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

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Anthony.

A - David Ruud {BIO 16089859 <GO>}

Hey, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey. Just a quick balance sheet question and a follow-up. I think Moody's maybe put out an update earlier this year with the company's FFO to debt metrics probably the lowest they've been in several years. I guess the impact of this year's storm activity, mild weather, and the rate decision, I guess just where do you think you end up in the end of '23 and how does that rate relative to your downgrade threshold and what are you thinking in '24?

A - David Ruud {BIO 16089859 <GO>}

Yes. Anthony, we remain in a (Inaudible) position with our balance sheet. We did meet with all the rating agencies this year and even ahead of this call. Now the FFO to debt from '22 was really due to lower FFO from our fuel cost and that's getting recovered this year. So, we'll see that FFO to debt in '23 come back as we recover our PSCR primarily at our electric company. So, we remain in good position, good headroom to the thresholds, any downgrade thresholds in any of our rating agencies at this point.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then if I could think of a, Jerry, a longer-term question. I know there's a pending rate case, we're all waiting for a decision, but when you think of the volatility, as you just said, Michigan was the only state in the Midwest that had mild weather. It seems that there's much more volatility in weather and storm activity we're getting in Michigan.

It seems every year or two, there's a catastrophic storm or an ice storm or something. I mean, when you file your future rate cases, thoughts on maybe the risk return or the risk involved in operating or the challenges in operating utility in Michigan, do you maybe change what you think the ROE that you need goes up higher?

A - Jerry Norcia {BIO 15233490 <GO>}

I think two things, Anthony, could go that route, which is a more challenging route in terms of lifting ROEs, but -- and it's certainly a possibility, especially in the light of rising, continued rising interest rates. There will be pressure to move ROEs up in the future if this interest rate construct continues to get worse or remains at the levels it's at.

But I feel that in the past, if you research our history, when we entered periods of very volatile storm activity, in order not to whipsaw the level of investment that we can make in our maintenance practices and also capital deployment, there have been storm trackers that have existed in Michigan in the past. And to me, that could be a very viable path going forward.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - Andrew Weisel {BIO 15194095 <GO>}

Hey. Good morning, everybody. Appreciate all the details.

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Andrew.

A - David Ruud {BIO 16089859 <GO>}

Hi, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi. Appreciate all the details on the mitigation efforts and the headwinds. Obviously, it's been a tough year. Most of mine have been answered. Just two follow-ups, please. First of all, just to set expectations around the rate case timing, let's assume we get a reasonable or normal or constructive outcome, whatever adjective you want to use, how soon should we expect the next rate cases? In other words, not trying to get ahead of the current outcome, but should we assume the more or less annual filing pace going forward?

A - Jerry Norcia {BIO 15233490 <GO>}

Andrew, I would say that we have an infrastructure recovery mechanism built into the current rate case request. If that's adopted by the commission, which we hope it will be, we will be in annual rate cases until that builds into a large enough infrastructure recovery mechanism for our distribution capital, primarily to keep us out of rate cases for longer periods of time.

Like if you look at our gas company, we're able to stay out between one and three years depending on what's transpiring inside the gas company. But it will reduce the frequency of rate cases if the commission chooses to adopt an infrastructure recovery mechanism. It'll just take a couple years for it to happen until that mechanism builds into a large enough amount to track enough capital to keep us out for a while.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. That sounds consistent --

A - Jerry Norcia {BIO 15233490 <GO>}

That's our goal.

Q - Andrew Weisel {BIO 15194095 <GO>}

That sounds consistent with what you've said in the past. Second question is totally unrelated. A question about supply chains. You're spending a lot of capital both on renewables and on improving reliability. How do you see the availability of these grid level equipment like transformers or switchgears? And if you do see shortages, is there a risk that might slow down your plan to pay for spending?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, certainly, we're very well aware of supply chain challenges with relation to transformers and switchgear, and we've expanded our reach beyond U.S. borders and are bringing in that equipment from international sources, which is working out quite well so far. We've done a lot of testing and a lot of investigation and due diligence over the last several years, and that's taken some pressure off of our supply chain. So, right now, we feel good about it, Andrew, in terms of how we're positioned to execute our large capital programs, both in the distribution business as well as the renewables business.

Q - Andrew Weisel {BIO 15194095 <GO>}

Very good. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Steve Fleishman with Wolfe Research. Your line is open.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi. Good morning. Thanks. Hi, Jerry. Can you hear me?

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Steve. Good morning -- yes. Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. So, just -- so like in the past, you've had rate cases and been able to give guidance in rate case -- with rate cases pending. So, should we think about this being different just because of what happened last year with the surprise in the sales forecast or just the tough conditions this year? Just how should we think about what's different this time versus in the past?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say realistically, Steve, our posture has probably gotten a little more conservative based on what happened last year, and all signals are positive. I mean, there's strong consensus prior to filing the rate case with commissioners and even in their public statements, supporting large levels of investment into the grid and into renewables.

We're also getting that from the Governor's office where there's strong support for investments in infrastructure, and again, a clamoring from customers as you've probably seen, especially this summer, wanting for us to invest and make the grid better and also support, strong support for the clean energy transition.

So, we're likely in a more conservative posture based on the challenges that we've had in the regulatory process, as well as some of the challenges we've experienced this year. So, we want to make sure when we tell you we're going to do something, we're going to deliver on it.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And it's -- and how much if anything is related to just other things than just the rate case in terms of just wanting to take more time?

A - Jerry Norcia {BIO 15233490 <GO>}

No, we don't need more time. We just need a data point here to finalize our plans for '24 --

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes.

A - Jerry Norcia {BIO 15233490 <GO>}

-- and our long-term plan. There's nothing else really that we're worried about other than it's a significant data point in our plan, and we don't want to get ahead of our commission.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. That's helpful. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Steve.

Operator

Your next question comes from the line of Sophie Karp with KeyBanc. Your line is open.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning, guys. Thank you for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Sophie.

A - David Ruud {BIO 16089859 <GO>}

Morning, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

Morning. So, a couple of questions, if I may. With respect to the storm activity, right, so we've seen now it seems like every year, once in a 50-year storm, right, something like that and different predictions. And as this type of weather volatility increases, and you see now it's Michigan, is there, in your mind, a need for a more, I guess, structural solution to that?

Maybe it should be done to a legislature that goes beyond trackers and riders and what have you, but maybe it's a securitization program for storms, some sort of a surcharge on customer bills for storm escrow. All those mechanisms have been employed like in the south where storms are an annual event. Is there something to learn from that and potentially it may be implemented in Michigan?

A - Jerry Norcia {BIO 15233490 <GO>}

I think the straight answer to that and simple answer, Sophie, to that is absolutely yes. We have to consider all of the above and those are great thoughts that you've offered. And certainly, we're thinking about similar approaches as to how to take this volatility out of the plan, because as you mentioned, what it does to a utility when you get into these volatile environments, storm environments, is it starts to whipsaw your maintenance plans and potentially even your capital deployment plans, and we don't want that to happen. We want to make the steady investments and perform the regular maintenance we need to have in order to run a high-quality grid and a high-quality operation. So, very good thoughts. We're very supportive of your thoughts, and we'll be pursuing them in the future.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. Thank you. Another question is this. Hypothetically speaking, if you were not entirely happy with the rate outcome in the current rate case, what is, I guess, a way for you to communicate that to the stakeholders, right? And some of your peers in other jurisdictions, when they were in such situations chose to signal that by cutting some of the non-consequential investments, but that is politically more charged, such as maybe EV infrastructure and things like that. And I was just curious if you've given some thoughts as to how you would proceed in that situation.

A - Jerry Norcia {BIO 15233490 <GO>}

So, Sophie, I'll say this much: certainly, any good company faced with uncertainty, any type of uncertainty, we do scenario planning, and we're in the midst of that. I think we're well advanced in our thinking and once we receive a rate order, we'll roll out our plans and our reaction. I don't want to get ahead of ourselves at this point in time and we'll await the order from the commission, and then we'll provide our guidance and long-term plan, which I believe at this point will all be very positive. I don't sense at this point that there would be a disruption in our ability to invest. I feel confident about the need to make the investment and that there's alignment. But then again, in order to be prudent, we were also doing a lot of scenario planning to ensure that we can respond to whatever happens.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. Thank you. That's all for me.

Operator

Your next question comes from the line of Travis Miller with Morningstar. Your line is open.

Q - Travis Miller {BIO 15260606 <GO>}

Thank you. Good morning, everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Travis.

A - David Ruud {BIO 16089859 <GO>}

Hi, Travis.

Q - Travis Miller {BIO 15260606 <GO>}

You've answered most of my questions here, so just two real quick ones. In terms of the coming announcements, in terms of guidance and capital investment, long-term growth, what about the dividend, the quarterly dividend announcement? Will that also come after the rate case and the planning?

A - David Ruud {BIO 16089859 <GO>}

Yes, that will come then. I think it may come even a little bit before that, depending on when that final rate case comes out.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. So, definitely after the rate case, but potentially --

A - David Ruud {BIO 16089859 <GO>}

Yes --

Q - Travis Miller {BIO 15260606 <GO>}

-- soon after --

A - David Ruud {BIO 16089859 <GO>}

So, it will be in the first week of December, yes.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. Perfect. And then the interveners that you mentioned that really weren't all that keen on settling, have they been in previous rate cases? Have they been interested in settling before? Did you know these people before, and were they familiar with the rate case process?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say that the -- we know them. Of course, we know them, we've been involved with them in many other rate cases. As we tried to bring all these parties to settlement, I would say the parties that typically don't have strong interest in the economics of the case are the ones that we had challenged bringing to the table. Not all, not exclusively all, but I would say most. The majority of the parties that we were not able to engage in settlement discussions probably had typically their function or mission is not tied significantly to the economic interests of our customers.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. Got it. Thanks so much. That's all I had.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Ryan Levine with Citi. Your line is open.

Q - Ryan Levine {BIO 19520640 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Morning, Ryan.

Q - Ryan Levine {BIO 19520640 <GO>}

On cost cut --

A - David Ruud {BIO 16089859 <GO>}

Hi, Ryan.

Q - Ryan Levine {BIO 19520640 <GO>}

Morning. On cost-cutting, were there additional tools that were decided not to use in the third quarter, or should we think of Q3 as the max from a cost cut for the company?

A - David Ruud {BIO 16089859 <GO>}

Yes. We looked -- we've been looking across our company ever since the end of last year for any opportunities that we had, and we saw that we put all we had in place through the beginning of the year. You saw that $270 million of offsets that we had. So, we've -- a lot of this plays out still through the end of the year. I mean, these are annualized numbers. They play out through the end of the year, but it's going to be a consistent number with what we've done now for cost cuts.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. And then on storms, I know that's been asked and answered, but in terms of the longer-term outlook, your neighbor utilities, some studies out talking about directionally 25% increase in storms through 2050. Is there any comparable analysis that applies to your jurisdiction, or how are you thinking about the longer-term impact? I mean, is that $55 billion number appropriate, or kind of what's the growth rate that you think is appropriate to apply to it?

A - David Ruud {BIO 16089859 <GO>}

Yes. We continue to look at that. We've seen the increasing weather patterns also and look at the increasing storm impact that has. And so, we do build in some contingency beyond what's in rates. But again, as we've talked about, we're going to look at what we need to budget going forward, as well as what are some of the other mechanisms we can use to manage storm going forward.

Q - Ryan Levine {BIO 19520640 <GO>}

Appreciate it. Thank you.

A - David Ruud {BIO 16089859 <GO>}

Yes.

Operator

Your next question comes on the line of Gregg Orrill with UBS. Your line is open.

Q - Gregg Orrill {BIO 21090160 <GO>}

Hi. Thanks for squeezing me in.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, Gregg.

A - David Ruud {BIO 16089859 <GO>}

Morning, Gregg.

Q - Gregg Orrill {BIO 21090160 <GO>}

Hey. Good morning. You mentioned you're expecting to get some cash back this year in the PSCR. Can you quantify that?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Our under-recovery last year was about $420 million. And so, we've been recovering that throughout the year. So, we're going to get the majority of that back through -- in this year. So, it's a little over $380 million we'll be getting back through this year. So, that's obviously swings the cash and FFO for us quite a bit by $800 million year-over-year.

Q - Gregg Orrill {BIO 21090160 <GO>}

Thank you.

Operator

This concludes our Q&A for today. I turn the call back over to Jerry Norcia for closing remarks.

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 further strengthening of our electric grid and preparing for increased demand from electrification on our system, and accelerating our path to cleaner generation. We continue to be well positioned for future growth and we'll provide (Inaudible) details after our grid case wraps up. Hope everyone has a great morning and a safe day.

Operator

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