Q4 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Scotiabank
- Angie Storozynski, Seaport Global
- Anthony Crowdell, Mizuho Securities
- Constantine Lednev, Guggenheim Partners
- Darius Hall, Bank of America
- Durgesh Chopra, Evercore
- Insoo Kim, Goldman Sachs
- Jeremy Tonet, J.P. Morgan
- Jonathan Arnold, Vertical Research Partners
- Michael Sullivan, Wolf Research
- Sophie Karp, Key Bank
- Travis Miller, Morningstar

Presentation

Operator

Thank you for holding, and welcome to the DTE Fourth Quarter 2021 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. (Operator Instructions).

Thank you. I'd now like to turn the call over to Barbara Tuckfield, Director of Investor Relations. Ms.Tuckfield, please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

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

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

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

Jerry Norcia {BIO 15233490 <GO>}

Well, thanks, Barb, and good morning, everyone, and thanks for joining us. I hope everyone is having a healthy and safe year so far.

This morning, I'll start by giving you a recap of our 2021 business performance, provide highlights on how we are well positioned for 2022, and give an overview on the robust opportunities in our long-term plan. Dave Ruud will close by providing a financial update and wrap things up before we take your questions.

I'll begin on Slide 4. 2021 was another great year for operational and financial results, continuing our incredible track record of creating shareholder value. We did all of this with a keen focus on our employees, customers and communities, continue to drive an organization to improve the health and well-being of our team, cultivating deeper employee engagement, which results in service excellence.

I always say that employee engagement is the secret sauce that drives our success, and for the 16th consecutive year DTE was named one of the Best and Brightest Companies to Work For in Metropolitan Detroit.

Now I'll switch over and discuss our customer focus. As you know, heavy storms impacted our service territory in 2021. To further harden our system in preparation for similar extreme weather events in the future, we are investing an additional $90 million in our tree trimming program through 2023, and these investments will not impact our customer bills.

Additionally, we have been making significant investments to further improve our reliability to ensure we are delivering for our customers now and into the future. Our strong focus on service excellence positioned us to achieve high customer satisfaction rankings. Our gas company is ranked number one by J.D. Power for both residential and business customer satisfaction.

Moving on to our communities. We are continuing our commitment to provide cleaner, more reliable energy through our decarbonization and voluntary renewable programs, which I'll discuss in more detail in a few minutes.

Additionally, we were recognized as the 2021 Corporation of the Year by the National Minority Supplier Development Council. We also had tremendous success on the economic development front. We were actively involved in General Motors decision to invest over $4 billion in EV technology in our service territory.

On the investor front, we finished 2021 strong and are well positioned to deliver future growth. I am also very proud of how the team successfully completed the spin of DTM. This separation positioned DTE as a predominantly pure-play utility and unlock significant value for our investors. In addition, 2021 was the 13th consecutive year, we exceeded our operating EPS original guidance midpoint.

Now let's turn to Slide 5. Our 2021 operating EPS of $5.99 per share provides 17% growth from our original 2020 guidance. We are narrowing our 2022 operating EPS guidance range. Our increased midpoint of $5.90 per share provides 7% growth over the 2021 original guidance midpoint.

We are reaffirming our 5% to 7% long-term operating EPS growth rate through 2026 from 2022 original guidance. We also increased our dividend by 7%, which is in line with the top end of our operating EPS growth target.

With the highly successful spin of DTM, over 90% of our growth will come from our utility businesses. At DTE Electric, we are investing heavily in the modernization of the grid and cleaner generation. At DTE Gas, we continue our main renewal work as well as infrastructure improvements. And the balance of our portfolio, about 10% is made of mainly earnings from our DTE Vantage business. Earnings from this segment are primarily from cleaner energy focused projects.

So, on to Slide 6. At DTE Electric, we announced our plan to accelerate decarbonization by ceasing coal use at the Belle River power plant by 2028, two years earlier than previously planned. Our Blue Water Energy Center is in the late stages of completion.

We introduced test gas at the facility last year and two turbines have been synchronized to the grid. This state-of-the-art natural gas plant is 96% complete and is on track to be in service this summer. These steps move us closer to our goal of net zero carbon emissions.

In 2021, we continue to see great success with our voluntary renewables program. We reached over 1,000 megawatts of commitments from large business customers and over 48,000 residential customers. We have an additional 1,300 megawatts in advanced stages of discussion with future customers.

As we highlighted last year, we are filing our integrated resource plan in October of this year. We continue to evaluate the opportunity to exit coal use at the Monroe Plant earlier than 2040. We started hosting meetings in January for the public to participate in shaping our clean energy plan.

Getting our stakeholders' input early in the process ensures that what matters most of them is taken into consideration, as we work to achieve the right balance of energy sources that will provide cleaner, affordable and reliable power for decades to come.

We announced during our third quarter call, that we increased our five-year capital program by $1 billion. This increase in our electric five-year plan is driven by distribution infrastructure investments, preparing our grid for electrification and hardening initiatives, and we increased our investment in clean energy.

Overall, this five-year $15 billion investment supports our plan to improve reliability and strengthen our system while focusing on customer affordability. DTE Electric filed a general rate case last month, which was the first filing in almost three years. I'm proud of the work that we have done with the Commission to come up with innovative ways to maintain affordability, and we will continue to focus on keeping rates affordable as we invest in the system.

And now let's turn to Slide 7. At the electric company, we are planning to invest $35 billion over the next 10 years to support reliability, additionally renewable resources and the increased pace of electric vehicle adoption. This provides a large inventory of potential capital investment pull forwards into the five-year plans.

As we plan for the cessation of coal use, we will need to invest in renewable resources, short and long duration storage, demand response and other dispatchable resources. Over the next 10 years, we also see an increased pace of EV adoption that drives grid investments, to support increased sales and a need for additional reliable generation.

We believe EV adoption will increase our electric load by 5% to 10% over the next 10 to 15 years. General Motors recently announced a $7 billion investment that will secure its commitment to accelerate an all-electric future, along with 5,000 high-paying new and retained manufacturing jobs in Michigan. This includes $4 billion investment to convert GM's Orion Township assembly plant located in DTE service territory, this plant will produce full-sized electric pickup trucks. Our collaboration with GM and the State of Michigan was fundamental in securing this investment.

The GM projects are the first to be approved utilizing the new critical industry program and strategic site readiness program signed into law by Governor Whitmer in December. These programs were created to ensure Michigan could effectively compete for billions of dollars in investment and attract tens of thousands of jobs to ensure continued economic strength in the state.

We are confident there will be more investment in the EV industry in our state. Even in our own operations, we are making strides in this area. We recently announced that we will be replacing up to 25% of our fleet with green fuel technologies by 2030.

Now let's turn to Slide 8 to discuss our gas business. We had significant accomplishments at DTE Gas in 2021. We announced our new natural gas balance program. This program provides the opportunity for customers to purchase both renewable natural gas and carbon offsets, allowing them to offset up to 100% of the carbon from the natural gas use.

We are the first gas utility to introduce this innovative program, and our customers really like it. We are proud of how fast the program is growing with over 5,000 customers already subscribed.

Another major accomplishment in 2021 is that we finished the first phase of our major transmission renewal project in Northern Michigan. This project includes the installation of new pipe and facility modification work to provide supply redundancy for a growing market. We are on track to complete this project in 2022.

We continue to focus on upgrading our system and replacing aging infrastructure to reduce costs and improve customer satisfaction. We plan on completing 200 main renewal miles in 2022. At DTE Gas, we are planning on investing over $3 billion over the next five years to upgrade and replace aging infrastructure and to further reduce greenhouse gas emissions.

Overall, we're looking forward to another strong year from our gas company, and we see natural gas playing an important role for Michigan's energy needs over the long term.

Now let's turn to Slide 9. At DTE Vantage, we continue to see additional opportunities in RNG and industrial energy services as the REF business sunset at the end of 2021. Last year, we told you about a new RNG project in South Dakota, which is now under construction and slated to start up in the second quarter of this year.

We commenced construction on another Wisconsin RNG project in the third quarter and entered into an agreement for an additional one, which will be our first project in New York.

Additionally, DTE Vantage, along with its 50% partner, will build a new RNG facility to take all of the available biogas from Riverview Energy, a Michigan-based landfill and converted into pipeline quality renewable natural gas. The project adds to DTE Vantage's portfolio of RNG projects serving transportation and other end-use markets.

The RNG business contributes to our decarbonization efforts as we move to a cleaner energy economy. At DTE Vantage, we are planning to invest between $1 billion to $1.5 billion over the next five years. We are targeting operating earnings of $90 million to $95 million in 2022, growing to $160 million to $170 million in 2026.

So longer term, we are maintaining our earnings growth target of about $15 million per year, which we have been able to achieve over the past few years. And we continue to have a great pipeline of projects in both RNG and industrial energy services to achieve future growth.

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

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone. As Jerry said, we completed a successful financial year in 2021, and we are well positioned for this year and for our future growth.

Let me start on Slide 10 to review our 2021 financial results. Operating earnings for the year were $1.2 billion. This translates into $5.99 per share. You can find a detailed breakdown of EPS by segment, including our reconciliation to GAAP reported earnings in the appendix.

I'll start the review at the top of the page with our utilities. DTE Electric earnings were $864 million for the year. This was $51 million higher than 2020, primarily due to the implementation of rates from the rate case we filed back in 2019, higher commercial and industrial sales and additional renewable projects. This was partially offset by higher O&M rate base cost and the tree trim deferral of $90 million pretax that we'll be using over the next two years to further accelerate our reliability improvements.

Moving on to DTE Gas. Operating earnings were $214 million, $18 million higher than 2020. The earnings increase was driven primarily by the implementation of rates, partially offset by higher O&M and rate base costs.

Let's move to DTE Vantage on the third row. Operating earnings were $176 million in 2021. This was $26 million higher than 2020, driven primarily by RNG earnings. On the next row, you can see Energy Trading had another solid year due to a strong performance in the gas portfolio throughout the year.

Finally, Corporate and Other was unfavorable $32 million year-over-year. This was driven by interest income in 2020 related to the CARES Act refund, which didn't repeat. And in 2021, we incurred expense to opportunistically retire higher priced debt at the holding company, which will provide interest savings going forward.

Overall, DTE earned $5.99 per share from continuing operations in 2021, representing 17% growth from our 2020 original guidance. So another strong year putting us in a great position for the future.

Let's turn to Slide 11 to discuss our 2022 operating earnings guidance. We are well positioned to deliver another successful year in 2022. As Jerry mentioned, we are raising our 2022 operating EPS guidance and narrowing the range to $5.80 to $6 per share. The increased midpoint of $5.90 per share provides 7% growth from the 2021 original guidance midpoint.

In 2022, growth at DTE Electric will be driven by distribution and cleaner generation investments. DTE Gas will see continued customer-focused investments in main renewal and other infrastructure improvements. 2021 was the final year for our reduced emissions fuel business at DTE Vantage. Approximately $100 million of REF earnings net of associated costs rolled off last year. This is partially offset in 2022 by new RNG and industrial energy services projects that will serve as a base for growth going forward.

At corporate and other, the biggest driver in our year-over-year improvement is lower interest expense. This is a result of leveraging earnings and cash strength in 2021 to opportunistically remarket some higher-priced debt. We also paid down parent debt with proceeds from DTM's debt issuance. This will provide interest savings in 2022 and future years.

Let's turn to Slide 12 to discuss our balance sheet strength. We continue to focus on maintaining solid balance sheet metrics. Due to our strong cash flows, DTE has minimal equity issuances in our plan beyond the convertible equity units that we'll convert later this year, but we also increased our five-year capital investment plan by $1 billion.

We have a strong investment-grade credit rating and target an FFO to debt ratio of 16%. We increased our 2022 dividend by 7%, continuing our track record of growing our dividend in line with the top end of our targeted EPS growth rate.

We completed our liability management plan following the spin of our midstream business using the funds raised from DTM's debt issuance to repurchase a little over $2.6 billion of corporate debt. This liability management plan was NPV positive, EPS accretive and further supports our long-term growth.

Let me wrap up on Slide 13, and then we will open the line for questions. In summary, we achieved great success in 2021 across all of our business lines. We raised and narrowed our guidance range and are in great shape for 2022, targeting 7% operating EPS growth from our 2021 original guidance midpoint.

Our robust capital plan supports our 5% to 7% long-term operating EPS growth while delivering cleaner generation and increased reliability for our customers. DTE continues to be well positioned to deliver the premium total shareholder returns that our investors have come to expect with strong utility growth and a dividend growing in line with operating EPS.

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

Questions And Answers

Operator

(Question And Answer)

Alright. Now we're going to open up for questions. So, our first question comes from the line of Shar Pourreza from Guggenheim Partners. Go ahead. Your line is open.

Q - Constantine Lednev {BIO 20877967 <GO>}

Hi. Good morning. It's actually Constantine here for Shar. He sends his regards. And congrats on the great quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Constantine.

A - David Ruud {BIO 16089859 <GO>}

Hi, Constantine.

Q - Constantine Lednev {BIO 20877967 <GO>}

Just as we're looking at the new guidance for '22 and the longer-term EPS growth rate. You've pointed out that you're growing faster amongst peers on a trailing basis. And going forward, there's less volatility post-spin obviously. Can you elaborate on what brings you down below the 7% growth rate going forward? And maybe some of the assumptions there on plans surrounding load growth and going on contingency.

A - Jerry Norcia {BIO 15233490 <GO>}

Sure, Constantine. Great question. So, as you mentioned, we've raised our guidance this year to 7% growth, and we've had a long track record of having best-in-class EPS growth in our industry. We're also for the first time in almost three years filed an electric rate case and are going to file an IRP in October. All of that will instruct our long-term capital plans, and also our long-term growth rate. So more to come on that.

Operator

Okay. Our next question comes from the line of Jeremy Tonet from J.P. Morgan. Your line is open. Please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hey. Just wanted to start with thinking about the rate case coming up here. We're seeing some inflation concerns throughout much of the economy. And just how do you think about customer bill impacts in this type of environment, and also, in light of I guess recent rate case filing?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. Good question. I -- what I'll say is that, we've stayed out of electric rate case for almost three years at the electric company. And that was really in response to the pandemic, and making sure that we maintain affordable bills for our customers. This rate case that we filed is primarily about capital infrastructure. And that's investing in our grid and preparing our grid for continued climate change, as well preparing it for demand growth from our EV adoption, as well as building for a cleaner energy future. So, it's all about capital. If you look at our rate case file, you'll also see for the first time in my memory that we filed for lower operating expense, which will make us distinctive -- continue to make us distinctive in the industry.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thanks for that there. And then, just want to pivot towards the coal plants. And just wondering how -- realistically how far can DTE pull forward some of these retirements over time, especially in Monroe here? And I guess, how do you think about the replacement capacity needs in conjunction with that?

A - Jerry Norcia {BIO 15233490 <GO>}

We're certainly going to accelerate Monroe from 2040. How far we accelerated from 2040 is something we're having -- doing a lot of analysis on and having a lot of conversation with our stakeholders. But I think you can expect to see a significant acceleration. What limited is, really, how do we ensure that there's good affordability and also reliability. I mean, those are the two premises that we really need to nail here as we complete our acceleration plan to exit coal.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thanks for that. And then, last and if I could real quick. Just with Vantage here, it seems like RNG opportunities highlighted growth there. Just wondering if you could update us I guess on hitting targeted returns in light of -- it seems like a highly competitive environment on the RNG side. And then, just taking a step back, Vantage overall, just how -- who are that businesses, having spun the midstream business recently? Just want to see Vantage is still fully core, I guess in your mind.

A - Jerry Norcia {BIO 15233490 <GO>}

So, Jeremy, the projects we're pursuing, we're still seeing high IRRs, unlevered IRRs in the mid-teens after-tax and simple case cash paybacks. So, three to five years. Going forward -- and that's all organic development. In our latest projects, actually, we're taking some of our biomass and biogas projects that we're feeding small power units and converting them to RNG. That's providing us a significant runway for future development as well.

So, we're limiting that business as you know to 10% of our earnings growth, as well as 10% of our overall portfolio, and it really pointed at complementing our ESG agenda. From an investor perspective, 90% of our focus is really on utility growth. So I would say that's the cake, and the high cash flows and high returns from Vantage, is sort of the frosting on the cake, if you will, for our investors. So, major focus on our utilities, and obviously, growing this business slowly and attracting really high returns.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. I'll leave with that. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Jeremy.

Operator

Okay. Our next question comes from the line of Insoo Kim from Goldman Sachs. Your line is open. Please go ahead.

Q - Insoo Kim {BIO 19660313 <GO>}

Yes. Thank you. My first question is on -- related to the upcoming or the current rate case in Michigan. And then, thinking about the growth rate beyond '22. Obviously, I think your peer in the recent case had some rate base or capital items that were at least deferred to the next case. So when you think about the potential range of outcomes that could play out in your case and combine it with the converts happening later this year, should we still think that with the contingency that you guys have in place that 5 to 7 is a pretty good benchmark for '23 on a year-over-year basis?

A - Jerry Norcia {BIO 15233490 <GO>}

So I'll just start that by saying that 5 to 7 is rock solid for us as guidance for 2023. We're working on those plans now and fine-tuning those plans for 2023, and that will start to shape up. And I think you could expect us to deliver some more results next year than we've been delivering in the past. In terms of the rate case, again, it's the capital plan. We've spent a lot of time with Commission staff and Commissioners themselves before we filed to really create a strong understanding of the investment that we are making in the grid, why we were making the investment in the grids that we are making, and also the impact on reliability. So there's a strong understanding of what we plan to do.

And if you'll recall, last year, we filed the five-year plan, 10-year plan and 15-year plan for the grid. So, we spend a lot of time socializing our plans with the Commission staff and the Commissioners. So, we believe there's a strong understanding of the grid investments. And then with our renewable plans, much of it is voluntary at this point in time. So, again, that's well understood. So that in combination with the fact we've been out for almost three years, we're feeling pretty good about delivering a constructive rate case outcome.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thanks for the color there. My only other question is on, for this year and maybe just going forward, what's the right level of whether normal electric or gas demand growth that we should be embedding?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave Ruud, you want to take that one?

A - David Ruud {BIO 16089859 <GO>}

Sure. We continue to see really good trends across our customer classes. And so, if you look from '21 to '20, we were up overall about 3%, and what we saw as our commercial load and our industrial load really coming back to kind of mitigate any of the decreased activity we saw with the COVID. We see that little more growth continuing across commercial and industrial. Residential was still high relative to pre-COVID.

We saw -- '21 had no real change from 2020 at those higher levels. We've seen that come down a little bit recently, but we're still seeing right now residential load somewhere around 5% higher than what we would have expected pre-COVID. And we do expect that to come down and taper off this year as more people go back to work and closer to how they did before.

Q - Insoo Kim {BIO 19660313 <GO>}

So, for 2022, should I -- should we assume that something like 1% overall growth is the right number? Or is that even more conservative than that? Just relative to what you're baking into your assumptions?

A - David Ruud {BIO 16089859 <GO>}

Probably a little more conservative due to the residential load coming down and tapering off as the year goes on. We've had really high residential in the '21.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you so much.

Operator

Okay. Our next question comes from the line of Durgesh Chopra from Evercore. Go ahead, sir. Your line is open.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning, team. Thank you for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Yes. Good morning, Jeff. Just a, -- Jerry. Sorry. Just -- in previous slides, you have this, Dave this disclosure on earnings growth for segments. 7% to 8% for electric and then 9% for gas. Just for a model, is that still sort of how you're thinking about the growth through 2026 in those -- in the segment?

A - David Ruud {BIO 16089859 <GO>}

So what we see is we see higher growth in these early years. So, '22 and '23 at electric and gas that allows us to grow at 5% to 7% through the converts that come in this year, the $1.3 billion of convert. And then, it comes down to where EPS and our growth in our utilities kind of match. So, we have a little bit higher in these early years, but then as we get to the out years, you'll see EPS and earnings of our utilities closer to each other.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. So higher in the early years and then basically in line with rate base in the out?

A - David Ruud {BIO 16089859 <GO>}

Yes.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. And then just on the CapEx upside opportunity, Jerry, just, can you clarify one thing for me? The $35 billion, is some of that already baked into your current plan? Or is that truly all upside on the electric side?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. The $35 billion, certainly, the first five years are in our plan. The reason we put that out there is to show that we have a very large inventory of investment opportunities. And that does give us the opportunity to pull forward our investments. So, that's really the opportunity. And I think you've seen we've got a pattern of increasing investments in our five-year outlook every year that we update.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. And just a quick follow-up on that and I'll jump back into queue. Is the EVs load increase, 5% to 10%, obviously, very robust. Is that incorporated in the $35 billion number? Or will that be -- will that drive further additional CapEx in rate-based investment opportunities?

A - Jerry Norcia {BIO 15233490 <GO>}

That could potentially drive incremental investment. We've assumed some level of investment, obviously, to harden our grid and prepare our grid for the future. But depending on how quickly that EV load comes on in the out years, beyond our five-year plan, it can certainly drive acceleration of investment in the grid, as well as investments in generation.

I mean, we're seeing the placement of EV manufacturing facilities in the state of Michigan. They are highly energy-intensive facilities, more so than traditional assembly plants. So, to give you an example, traditional assembly plant can consume anywhere from 20 to 25 megawatts of power. An EV assembly and battery plant, you're talking north of 70 megawatts. So it's -- these are significant loads that will come to the state in addition to the demand just from the vehicles themselves.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. Thank you, guys. Congratulations on the great quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

A - David Ruud {BIO 16089859 <GO>}

Thank you.

Operator

Our next question comes from the line of Angie Storozynski from Seaport. Your line is open. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. So I wanted to follow up on Vantage. I think, if you look at your stock, there seems to be an imputed discount to your closest peer, which I think we all associate with, that business. And so, you keep adding new projects. The market for RNG products -- projects, like we sell, those RNG products -- project seems pretty hot still. So, if you could tell us if there is any plan to have a strategic review regarding Vantage? And if yes, what would be the potential use of proceeds? Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

So, Angie, I'll start with that. I -- right now, we're seeing RNG business grow nicely. Quite modestly in terms of the overall DTE portfolio. We're generating anywhere from $7 million to $8 million a year of new net income from that business and the returns are really, really high. And as you said, the market valuation for RNG assets right now is pretty hot, right?

And so, we're constantly looking at other opportunities to continue to optimize our portfolio. And so, that's really the work that we constantly do to evaluate who values that the most, our current slate of investors or other investors. And I think you've seen we have a reputation of, if we see significant opportunity to optimize value, we will take that move. But no plans at this current state to do that as we see continued growth and high returns and high cash flows.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then, just going back to that notion of maintaining that 5% to 7% EPS CAGR. And I understand some deceleration of growth in operating earnings for utilities beyond '23. But do you really see yourself below 7% for -- in this sort of steady-state utility growth given all of the -- given the IRP and voluntary renewables and additional growth drivers that you've talked about?

A - Jerry Norcia {BIO 15233490 <GO>}

Angie, again, I -- what I'll point to is that, and I think you've said it, we've been delivering extraordinary EPS growth results over the last decade, including last year, and even this year we're forecasting 7%. Looking forward, this is something we're examining very closely because we're getting a lot of feedback from analysts and investors, what will your growth rate look like beyond 2022? And we're doing a lot of work on that.

We feel that the filing of the IRP in October, as well as, we would be moving very close to the conclusion of our first-rate case at the electric company at three years. That'll be very instructive in us laying out our long-term growth plans, as well as our long-term CapEx plans for this -- for the company. So, more to come on that Angie.

Q - Angie Storozynski {BIO 15115714 <GO>}

And then, lastly, the last remaining coal plant. So, I understand the IRP filing is in October, but is the assumption that at least some of this capacity would be replaced by a gas-fired plant?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say that, yes, is the short answer. We will need dispatchable generation. And so, you will see gas in our plant. You'll also see an extraordinary amount of renewables. You'll see battery storage in that plant. And you'll also see demand response initiatives. So you'll see many initiatives to replace that coal-fired generation. So, gas will be part of it. We are also looking very closely at enabling any new gas facilities that we install or propose that it will have carbon capture and storage capability, as well as the ability to burn hydrogen.

Q - Angie Storozynski {BIO 15115714 <GO>}

Very good. Thank you.

Operator

Okay. Our next question comes from the line of Julien Dumoulin-Smith from the Bank of America. Please go ahead.

Q - Darius Hall

Hey. Good morning. It's Darius on for Julien here. Reminding us how you're tracking against the 16% of the FFO to debt target, and when do you expect to achieve that?

A - David Ruud {BIO 16089859 <GO>}

In '21, we were a little bit higher than that because we still had the cash flows from DTM in there for part of the year, but we'll be getting to that 16% in '22 and going forward.

Q - Darius Hall

You've answered all my other questions too. Thanks again.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks, Darius.

Operator

Okay. Our next question comes from the line of Michael Sullivan from Wolfe Research. Your line is open. Please go ahead.

Q - Michael Sullivan {BIO 18090451 <GO>}

Hey, everyone. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Michael.

Q - Michael Sullivan {BIO 18090451 <GO>}

Hey, Jerry. So. Just wanted to quickly circle back to the discussion on potentially pulling forward some of these coal plant shutdowns. Is there a possibility for fuel switching as well for replacement?

A - Jerry Norcia {BIO 15233490 <GO>}

There is, and actually at the Belle River Power Plant, which we pull forward to 2028. In our filing with the EPA and other agencies, we indicated that we would be using the Belle River Power Plant, which is about 1,200 megawatts of coal right now as a gas peaker. So there is that opportunity. And we view that as favorable for our customers because, one, it provides a reliability source. And secondly, it allows the continued depreciation in the plant for longer than -- well beyond 2028. And I think at Monroe, we're examining similar opportunities for either fuel switching or voltage support on the grid, as well as using some of the existing infrastructures. We have to put some baseload gas down there.

Q - Michael Sullivan {BIO 18090451 <GO>}

That's great. Thanks. And then my other question was, so you guys continue to add to this voluntary renewables program. Just wanted to get a sense of how you're doing on some of the projects associated with that demand? What's embedded in 2022 in terms of new wind or solar farms being added? And are you seeing any delays or pressures related to supply chain or inflation there?

A - Jerry Norcia {BIO 15233490 <GO>}

So we have 1,000 megawatts that's signed and underway from a construction perspective. And then, we have another 1,300 megawatts that are in advanced stages of negotiation. And so, we're in really good shape on the demand side. On the supply side, we've got all of our '22 and '23 resources, physical resources lined up for that, whether it's solar panels or wind turbines. So we're in really good shape there. We have seen some supply chain stress, if you will, but that's beyond the timeframe that we're securing assets for right now.

Dave Ruud, I don't know if you had other comments you want to add?

A - David Ruud {BIO 16089859 <GO>}

Yes. And even for our future builds, we're seeing the supply chain constraint to ease up now. So, we're going to be fine getting those two. Pricing may be a little higher than what it was a few years ago, but it's going to be consistent with the rest of the market and also good for customers' bill too.

Q - Michael Sullivan {BIO 18090451 <GO>}

That's great. Really appreciate the color. Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Alright. Our next question comes from the line of Andrew Weisel from Scotiabank. Your line is open. Please go ahead.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you. Good morning, everyone, and congrats on another strong year.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning. Thank you, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

First question is on the 2022 guidance. I see that you've up the forecast for each of the three major segments. What's driving that? Is it individual business-specific factors, or general cost controls, or maybe simply removing some conservatism?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave?

A - David Ruud {BIO 16089859 <GO>}

Yes. Really, it was the latter. As we ended the year and we looked at our plans, we just gained even more confidence in each of the businesses and where we could come out. And we were able to bring up the bottom end of those.

A - Jerry Norcia {BIO 15233490 <GO>}

Also we're seeing --

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great.

A - Jerry Norcia {BIO 15233490 <GO>}

the contingency build. We're starting to see the contingency build in each of our big business lines, as well as we've had some really nice weather in Detroit.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great. Very good. Then, my other question is, can you elaborate on your commitment to helping vulnerable customers in winter months? What exactly is that? And what -- how are these programs may be different from your typical low-income assistance programs?

A - Jerry Norcia {BIO 15233490 <GO>}

One of the most impactful programs that we have, Andrew, is, our low-income self-sufficiency plan. Something that we develop (inaudible) customers' income levels. And then apply a credit to their bills using federal funding and also some value that comes from our rate (Technical Difficulty) $75 a month or $50 a month depending on what they can afford and the balance of that payment comes from (Technical Difficulty) the year in terms of federal and state assistance to our customers. So that helps our customers keep their heat-on and their lights on through the winter months, and it also creates a sense of dignity for our customers because they're also paying in for a portion of the bill. So that's the most unique program that we have.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. Thank you so much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Our next question comes from the line of Sophie Karp from KeyBanc. Your line is open. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning. Thank you for taking my question. I've a couple of questions actually.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

Yes. Hi. So, on the RNG technology, I'm just curious if this technology at this point is pretty, I guess mature? Or are you still seeing potential for price improvements there that will potentially drive the -- pretty much going to be stable at the level where we're at based on what technology is doing?

A - Jerry Norcia {BIO 15233490 <GO>}

Sophie, we saw some technology improvements over the last couple of years that drove costs significantly down in this arena, and we've adopted that technology for several of our projects in Wisconsin, and even in, we're considering it in the Dakotas. So, we have seen technology price movement. We have not seen anything recently, but it has helped with boosting our returns beyond our expectations by adopting some of this technology.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. And then, I also have a question on the EVs. And this is I think one of the first times when you start talking about the potential impacts of the EVs on road and we begin hearing more about the EV penetration in general. I'm just curious if you -- how do you see your particular territory adopting? How do you see the speed of adoption in your particular territory I guess? I get it that the auto manufacturers out there, but the territory is not particularly affluent or high penetration of renewables. So, should we expect Michigan to be at the forefront of the adoption of EVs? Or maybe elaborate in that aspect, like how should we think about that?

A - Jerry Norcia {BIO 15233490 <GO>}

We see significant adoption potential here in the state of Michigan. I think as you mentioned, with our voluntary renewables, there is a strong desire to green the environment. And we're seeing that with many customers, the large institutional customers, as well as also residential customers. So, EV adoption is something we've also started to see a ramp up in the state of Michigan, it's still quite small. Last year -- actually in 2020, we were seeing maybe several hundred a month, now we're getting close to 500 to 1,000 a month of EV attachments to our system, and that's significant. So, we'll see a continued ramp there as new models are introduced. So, there is the ability to see the adoption and we expect it to happen.

Q - Sophie Karp {BIO 19699392 <GO>}

Alright. Thank you.

Operator

Our next question comes from the line of Jonathan Arnold from Vertical Research Partners. Your line is open. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jon.

A - David Ruud {BIO 16089859 <GO>}

Hey, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

A quick follow-up on the EV topic. You talked about the 5% to 7%, I understand that the head of volume load, I am just checking if that's correct. Any -- can you comment on what you think it might do to peak load as you start to sort of think about rate design following this demand?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. That's a good consideration. What we're seeing right now is that, most of the EV adoption, people are charging at home. And all of the feedback that we're getting from the OEMs, from the large autos here in Detroit is that the customer preference -- 80% of the customer preference at this point in time is to charge their EVs at home. There's a lot of convenience in being able to do that. And most of that will happen in evening, so that's beneficial to our grid.

So we see the early adoption of EVs being very beneficial to us because it won't require a lot of investment. So in the early years, the adoption -- the EV adoption would be quite good for our load and our margins, and also help support much of the grid investments we need to make for the future. As you get deeper in the EV adoption, I think you'll start to see a significant amount of investment required in a grid to support usage throughout the day.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great. And what is your assumption on penetration, Jerry, just behind that number you shared with us today?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, do you have any thoughts on that?

A - David Ruud {BIO 16089859 <GO>}

I don't have the penetration number, but we can get back to you guys on that.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Perfect. Thanks again.

A - Jerry Norcia {BIO 15233490 <GO>}

I would say, Jonathan, in order of magnitude what's being predicted is that, in the 2030s, early 2030s, about half the vehicle sales will be EV sales. That's how we're building our forecast that you see.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great. Thank you.

Operator

Our next question comes from the line of Anthony Crowdell from Mizuho. Your line is open. Please go ahead.

Q - Anthony Crowdell {BIO 6659246 <GO>}

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

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hopefully just a couple quick ones. I think in one of the earlier questions, you talked about maybe the growth rate. And I don't know if you use the word review here looking at it. When does the -- when you believe you'll be done with that review, is it you're going to wait for the rate case in IRP to play out? Or is that something that you think may conclude sooner?

A - Jerry Norcia {BIO 15233490 <GO>}

At this point, Anthony, we are thinking it's going to be at the time that we -- in and around the time that we file our IRP, we'll have a lot of our long-term growth plans, especially as we think about replacing our generation fleet laid out. And that's the current timing that we're thinking about.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then on the IRP, I believe in Michigan when you file it and you talked about maybe on the rate case you had a lot of -- before the filing you met with a lot of policymakers and maybe get support. On the IRP, have you begun that dialogue and has there been any particular issues that maybe require more discussion than others?

A - Jerry Norcia {BIO 15233490 <GO>}

We have begun that dialogue with many stakeholders as it relates to our IRP. And the dialogue ranges from strong support around what we're planning to do, as well as you would expect people asking us to accelerate. So, we view that as all positive and constructive, and it will help us build a really solid IRP that we'll file in October.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then my last question. I think some of the earlier questions really are focused on maybe on the 5% to 7% growth rate you've given out, maybe on the higher end. But if I could flip the question like, what do you see that would cause you to be at the lower end of that range? Like what -- not that I'm hoping that happens, but just what do you have to say operationally or something that may be where we should be focused on that 5% of the range?

A - Jerry Norcia {BIO 15233490 <GO>}

As you know, Anthony, we've never even come close to delivering on the lower end of that range. I think if you look at our track record, we've been at the top end of our range pretty consistently. And we strive to accomplish that each and every year. And if we don't, we would be very disappointed. So, that's our plan going forward. We aim for the midpoint, but certainly, we try to do all we can with our plans to deliver the top end of that range. And I think you're seeing that again this year. And if you look at the last decade, we've done that pretty consistently. So, it'd be a pretty remote possibility, I mean, we've weathered economic collapses, we've weathered pandemics and have delivered well above that 5% as you know.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Yes. Absolutely. Thanks again, and the solid quarter. Thanks so much for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Okay. Our next question comes from the line of Travis Miller from Morningstar. Your line is open. Please go ahead.

Q - Travis Miller {BIO 15260606 <GO>}

Good morning, everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, Travis.

Q - Travis Miller {BIO 15260606 <GO>}

Thank you. Two follow-ups to some of the comments you made on the 10-year plan. One, if you start to invest in the fuel switching, some of the -- one or more of the coal plants, does that eliminate the need for a new gas plant or some other new non-renewable source of generation?

A - Jerry Norcia {BIO 15233490 <GO>}

While the switching coal boilers to natural gas is a good peaking resource, Travis, but not necessarily good baseload resource because of efficiencies. The new gas turbines, for example, they've got very low heat rates, around 7,000, whereas an old coal boiler might be up around 10,000. Meaning, just -- it just means they burn a lot more fuel to produce the same energy output. So, they're good peaking resources, but it would be -- they would be very expensive as a baseload resource. So we do see at least at this point more gas turbines in our future that would have carbon capture and hydrogen consumption capability.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. Yes. That makes sense. And then, you just mentioned it. As you look out those 10 years, and Jerry, you had mentioned long-term storage. How does that play into in terms of hydrogen, if not directly into the plants like you said right now but some other way?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Hydrogen -- I think it's a great question. And you've seen in our rate case that we filed for hydrogen pilot. So, we're going to start experimenting with using hydrogen, small-scale hydrogen storage as well as hydrogen consumption in our new gas turbine, which is the Blue Water Energy Center in St. Clair County, that will go into service this summer. So, we're going to start experimenting with the use of hydrogen to see how the turbine responds, and also start to understand how to handle, and move, and store hydrogen.

Longer-term, hydrogen is a good fuel to store electric energy because it has high energy density and also its -- it can be blended with natural gas and stored in natural gas facilities up to some extent. So, we're going to start experimenting with all of that so that we can understand it more deeply. And I know some of our peers are also doing that as well.

Q - Travis Miller {BIO 15260606 <GO>}

Yes. Great. Thanks so much. I really appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

There are no more -- no further questions at this time. I will now 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. And I'll just close by saying that we had another strong year in 2021 as you've seen, and I'm feeling really good about delivering a strong 2022, which will position us for the future and deliver premium returns for investors, both from an EPS growth perspective, as well as a dividend growth perspective. So, hope everyone has a great morning and stays healthy and safe.

Operator

That concludes today's conference call. Thank you for your participation. You may now disconnect.