Q4 2023 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Scotiabank
- Anthony Crowdell, Mizuho Securities USA LLC
- David Arcaro, Morgan Stanley & Co. LLC
- Durgesh Chopra, Evercore ISI
- Gregg Orrill, UBS Securities LLC
- Jeremy Tonet, JPMorgan Securities LLC
- Julien Dumoulin-Smith, Bank of America
- Michael Sullivan, Wolfe Research
- Nicholas Campanella, Barclays
- Ryan Levine, Citigroup Global Markets, Inc.
- Shahriar Pourreza, Guggenheim Securities LLC
- Sophie Karp, KeyBanc Capital Markets, Inc.

Presentation

Operator

Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy Fourth Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). Thank you.

I would now like to turn the call over to Barbara Tuckfield, Director of Investor Relations. 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, 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, Barbara, 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 give you a recap of the accomplishments we achieved in 2023 and provide highlights on how we are well positioned for 2024 and beyond. Dave will provide a financial update and wrap things up before we take your questions.

As you know, 2023 was a challenging year for DTE, as we faced significant headwinds from an unprecedented combination of weather and storm activity. I am very proud that our company came together to face these headwinds and execute on our plan that offset the majority of the challenges.

We achieved operating earnings per share of $5.73 in 2023. This was a result of overcoming $300 million of the approximately $400 million of headwinds that we faced. In the appendix, we included a summary of the headwinds and the one-time actions we took in 2023.

As I said during the year, the fact that we were able to offset most of the challenges we faced while maintaining service excellence is a clear indication of our highly engaged team and our commitment to operating excellence. I couldn't be prouder of our team's effort in 2023 and our commitment to deliver for all of our stakeholders will continue into 2024 and beyond.

This engagement of our team at DTE was recognized with our 11th consecutive Gallup Great Workplace Award. DTE was also recognized as one of Metro Detroit's Best and Brightest Companies to Work For, as well as one of Time Magazine's Best Companies for Future Leaders. We continue to address our customers' most vital needs by investing heavily in our utilities to rebuild our aging infrastructure, improve reliability, and support the transition to cleaner generation.

There have been a number of developments that support our customer-focused investment agenda, including the filing of our distribution grid plan that provides a roadmap to improve reliability and automation of our system, and our integrated resource plan that outlines our investment in Michigan's cleaner energy future, while remaining very focused on customer affordability. In 2023, we made strides on our reliability improvement goals. I'll go over this in more detail on the next slide, but I can tell you that our efforts in this area are working.

In circuits where upgrades were completed in the first half of 2023, customers experienced 33% fewer outages during the second half of the year compared to the second half of 2022. Also supporting our investment agenda is the constructive electric rate case order we received in December. During the first half of this year, we expect to file our next electric rate case, which will underpin the continued investments in system reliability, grid modernization and cleaner generation.

We also recently filed a rate case at DTE Gas to support important investments necessary to continue to renew our gas infrastructure, which will minimize leaks and reduce costs. So you can see that we continue to invest heavily in our utilities in 2023. DTE Electric invested $3.1 billion on continued improvements and reliability and cleaner energy generation for our customers, while DTE Gas invested nearly $750 million on infrastructure and main renewal improvements. Reinvesting in utility infrastructure to drive reliability improvements far exceeds cash generated from operations, demonstrating our commitment to improving reliability for our customers.

Another significant event in 2023 was the passing of new clean energy legislation in Michigan that the governor signed in November. This energy policy creates a very clear roadmap for the development of additional solar, wind and storage assets that is generally consistent with the accelerated renewables build and cleaner generation path that we laid out in our IRP filing. This investment is supported by the Inflation Reduction Act that includes provisions which reduce the cost of investments in our system and we pass all of these benefits along to our customers.

Our effort to maintain affordability for our customers has been demonstrated over the last four years. Based on the outcome of our last rate order, the average annual growth of our residential electric bill is just over 1% since 2020 compared to a national average annual increase of over 6%. This is supported by a $300 million reduction in our fuel and purchased power cost that went into effect last December to lower customer bills. Through this significant reduction, along with our long history of cost savings through continuous improvement, we will continue to effectively manage affordability for our customers.

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

We have a robust investment agenda of $25 billion over the next five years, which is a $2 billion increase over the prior plan, and we have a 10-year capital plan of over $50 billion. 95% of our capital will be invested at our two utilities. Investments at our nine utility businesses are strategically focused on our customers' needs and align with our clean energy initiatives.

Our 2024 operating EPS guidance midpoint provides 7% growth from our 2023 original guidance midpoint. Our long-term operating EPS growth remains at 6% to 8% with 2023 original guidance as the base of that growth. And our 2024 annualized dividend of $4.08 per share is consistent with our practice of growing dividends in line with our operating EPS. Importantly, we will continue to have a strong balance sheet and investment-grade credit ratings to support this customer-focused capital investment plan.

Now let's turn to Slide 5. At DTE Electric, our significant capital investment plan is focused on building the grid of the future for our customers and supporting the transition to cleaner generation. Our recently filed Distribution Grid Plan outlines our path to build the grid of the future. This plan includes the transition to a smart grid with full automation within five years, resulting in less frequent and shorter outages for our customers. We are also investing $9 billion on distribution infrastructure over the next five years, targeting reliability improvements of more than 60%.

During 2023, DTE Electric focused on improving the reliability of over 400 of our most challenging circuits, including trimming more than 5,000 miles of trees, installing more than 200 automated reclosers and maintaining our extensive network of electric infrastructure, including replacing pole top equipment in over 3,500 utility poles. We are continuing to accelerate our tree trimming program. We are also continuing our accelerated preventative maintenance by upgrading more than 10,000 miles of infrastructure, with over 1,300 miles upgraded in 2023.

Finally, we are accelerating the rebuild of our 4.8 kV system and pursuing undergrounding. We did experience a large storm in January, and our team came together to achieve one of the fastest restorations for a storm of this size. The $2 billion increase in our DTE Electric five-year plan is driven by investment in cleaner generation that is supported by the IRP, the recently passed energy legislation, and our voluntary renewables program. Accelerating this investment provides more affordable energy for customers over the long term. Our voluntary renewables program is still exceeding our high expectations.

As I mentioned last year, the National Renewable Energy Laboratory recognized DTE as having the largest green tariff program in the country, fulfilling more load under contracted subscriptions than any other program.

Now let's turn to Slide 6. At DTE Gas, we are planning to invest $3.7 billion over the next five years to upgrade and replace our aging infrastructure. Over the years, we have made significant progress and recovered investment through our infrastructure recovery mechanism. Since the program began, we have renewed over 1,700 main miles and plan to complete over 200 more miles in 2024.

Our Natural Gas Balance program also continues to grow with over 13,000 customers currently subscribed. The program offers ways for customers to manage their carbon footprint through carbon offsets with our forestry partners in northern Michigan as well as renewable natural gas.

And now let's discuss the opportunities at DTE Vantage on Slide 7. At DTE Vantage, we are planning to invest between $1 billion to $1.5 billion over the next five years. We continue to advance custom energy solutions, RNG, and carbon capture and sequestration projects. One project that we'll highlight is the expansion of a long-term, fixed fee custom energy solutions agreement with Ford Motor Company to build, own, and operate and maintain the central utility plant and distribution infrastructure serving its facility in Tennessee.

In addition to the utility generation infrastructure, we will also provide distribution of hot and chilled water, steam, natural gas and electricity, domestic and sanitary water, along with HVAC equipment and a wastewater treatment facility. Projects that are organic expansions, like this one, are attractive to us, given the long-term relationships, strong sites, and the utility like structure. This project, combined with other projects, helps position us for future growth.

Our development pipeline at Vantage remains strong. The IRA improves decarbonization opportunities, as enhanced tax credits allow our projects to be more economic, including carbon capture, RNG, and combined heat and power projects. The RNG market growth continues and is supported by the Federal Renewable Fuel Standard and California's Low Carbon Fuel Standard.

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

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry. Good morning, everyone. Let me start on Slide 8 to review our 2023 financial results. Operating earnings for the year were $1.2 billion. As Jerry mentioned, we achieved operating earnings per share of $5.73 in 2023. This was achieved after experiencing and overcoming additional headwinds with December being one of the warmest on record. You can find a detailed breakdown of EPS by segment, including our reconciliation to GAAP reported earnings in the appendix.

I'll start to review at the top of the page with our utilities. DTE Electric earnings were $791 million for the year. This is $170 million lower than 2022. The main drivers of the earnings variance was warmer winter weather, cooler summer weather, and higher storm expenses. There were also higher rate based costs, lower residential sales relative to '22 with the continuation of people returning to work, and accelerated deferred tax amortization in 2022. This was all offset by the one-time O&M cost reductions that we implemented in 2023.

Moving on to DTE Gas. Operating earnings were $22 million higher than 2022. The earnings variance was driven by one-time O&M cost reductions and IRM revenue in 2023, which was offset by warmer weather and higher rate base costs.

Let's move to DTE Vantage on the third row. Operating earnings were $153 million for 2023. This is a $60 million increase from 2022, primarily due to new RNG projects and steel related earnings that were mainly a result of opportunistic byproduct sales.

On the next row, you can see energy trading finished the year with earnings of $105 million. As I discussed through the year, we experienced favorability in 2023 due to the robust contracted premiums in our physical power portfolio. A portion of this favorability from these contracted positions is expected to continue into 2024.

Finally, corporate and other was unfavorable by $15 million year-over-year, primarily due to interest expense. Again, I'm extremely proud of our team. We overcame the majority of the unprecedented headwinds that we faced in 2023, and we did this without sacrificing reliability and our deep commitment to customer service. Overall, DTE earned $5.73 per share in 2023.

Let's turn to Slide 9. Our 2024 operating EPS guidance midpoint is $6.69 per share, which provides 7% growth over our 2023 original guidance midpoint. And we continue to target 6% to 8% long-term growth from our 2023 original guidance.

In 2024, DTE Electric growth will be driven by the investments in grid reliability and cleaner generation. DTE Gas will see continued customer focus investments in main renewal and other infrastructure improvements that enhance performance of our transmission, compression, distribution and storage assets and support decarbonization. At DTE Vantage, 2024 earnings are largely driven by RNG projects and new custom energy solutions projects that serve as a base for growth going forward.

At energy trading you can see we are guiding to an earnings level that is slightly higher than the 2023 original guidance. This is due to the sustained robust margins that we have contracted and hedged in our structured physical power portfolio that are continuing into 2024. At corporate and other, the change is driven by higher interest expense and one-time tax items. Our long-term EPS growth rate of 6% to 8% from the original 2023 midpoint of guidance demonstrates our confidence in maintaining the growth trajectory we have achieved over many years.

Let's move to Slide 10 to highlight our strong balance sheet and credit profile. Going forward, we will continue to invest heavily into our utilities. The majority of this investment is funded by our strong cash from operations, which is shown on our cash and capital guidance slide in the appendix. Due to these strong cash flows, DTE has minimal equity issuances in our plan, targeting annual issuances of $0 million to $100 million through 2026.

Our 6% to 8% long-term growth plan includes debt refinancings and new issuances, and we continue to manage these future issuances through hedging and other opportunities. In 2023, we also extended our revolving credit facility with all 21 banks out to 2028. We continue to focus on maintaining our strong investment-grade credit rating and strong balance sheet metrics. We target an FFO-to-debt ratio of 15% to 16%.

Let me wrap up on Slide 11, and then we open the line for questions. Our team continues our commitment to deliver for all of our stakeholders. Our robust capital plan supports our customers as we execute on the critical investments that we need to make to improve reliability and transition to cleaner generation while focusing on customer affordability.

The 2024 operating EPS midpoint provides 7% growth over the 2023 original guidance midpoint, and we continue to target long-term operating EPS growth of 6% to 8%. Our dividend growth remains strong as we continue to target dividend increases in line with operating EPS growth.

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.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). Your first question comes from the line of Shahr Pourreza with Guggenheim Partners. Please go ahead.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, guys. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shahr.

A - David Ruud {BIO 16089859 <GO>}

Hey, Shahr.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. Obviously, just real quick, CapEx is moving higher and the credit metrics are strong and obviously you're highlighting that you have minimum equity needs in the current plan. I guess, Dave, can you just touch on funding sort of incremental spending opportunities, maybe using some rule of thumb as we think about the percentage of equity needed to fund every new dollar of CapEx above this base plan? Maybe the answer is zero. And there's been obviously some mentions of an RNG sale in the media, just given sort of the cash versus earnings attributes of that business, is that an accretive recycling opportunity? Thanks.

A - David Ruud {BIO 16089859 <GO>}

Yes. Hi, Shahr. This is Dave. I'll take the first part of that. Yes, as you saw in our plan, we have really strong cash flow generation that allows us to maintain our FFO-to-debt at the rate of 15% to 16% while issuing minimal equity. And it does give us some headroom to the downgrade thresholds, too.

So, though we haven't given a rule of thumb for how much new equity we would have to use for any new CapEx, but we still have some flexibility within our plan that would allow us to kind of work around any new equity that we'd have to do. But our plan, as you saw, has $2 billion of new capital in it, which we were able to bring in really due to the capital generation, and then some of the favorability that we're seeing from the IRA tax credit as well.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, and Shahr, I'll take the non-utility assets. Certainly, we're happy with all our assets there, but we're always looking for opportunities to -- there was an opportunity to create incremental value for our investors. We would take that opportunity in terms of optimizing the portfolio. But I would say at this moment, certainly we don't have any incremental cash needs in our plan. And so there really isn't anything imminent at this time.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. And then just lastly on just the regulatory, maybe just expectations for '24, you have a notice of a potential filing with the MPSC for March 1st. I guess, can you just elaborate on that filing? I guess, what do you see different from the prior case, which wasn't easy to get through, especially as we're kind of thinking about the IRM, sales forecast, rate design, et cetera? Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So, if you're referring to a potential electric rate case, we're looking to make a filing late in the first quarter, early second quarter. I would say that most of that filing will be about the capital investments we're making to upgrade the grid and transition to cleaner energy. So, again, it'll be a CapEx driven filing, is what we expect at this point.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Fantastic. Appreciate it, guys. See you real soon. Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks, Shahr.

Operator

Your next question comes from the line of Nick Campanella with Barclays. Please go ahead.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey, good morning. Thanks for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Nick.

A - David Ruud {BIO 16089859 <GO>}

Hey, Nick.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Good morning. I guess just to follow up on the Vantage portfolio optimization comments, just if you don't have cash needs in the current plan and there is an opportunity to do something, just how do we think about those use of proceeds?

A - Jerry Norcia {BIO 15233490 <GO>}

If we did pursue some form of optimization, obviously, the cash proceeds would go to offsetting debt issuances and even potentially the repurchase of some equity. But as I said, there's really nothing imminent at this point in time.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Appreciate that. Okay. And then I guess just as you kind of wrapped in the Michigan legislation to your outlook, you're probably looking at changes to the supply portfolio. Can you just remind us what your philosophy is in terms of owning these assets versus doing PPAs? Are you going to target to do a mix or do you want to do all renewable ownership? That would be helpful.

A - Jerry Norcia {BIO 15233490 <GO>}

So we certainly like to own assets because we think it's much more accretive, both for our customers in terms of providing lower costs, I think we've been able to show over and over, is that ownership provides lower costs to our customers and also it provides greater benefit to our investors in terms of EPS growth.

So we prefer to own. I think you'll see in the IRP, with -- in the IRP settlement, we did agree to share some ownership and it breaks out somewhere between two-thirds and one-third ownership, between us owning two-thirds and others owning one-third in the IRP piece. I think the legislation also did not talk about ownership, which we -- and was neutral on that point. So we are pleased with that and in addition to that, it also provided for a compensation mechanism for PPAs that will give us some upside as we sign PPAs.

Q - Nicholas Campanella {BIO 20250003 <GO>}

All right. Thanks so much for the time today.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks, Nick.

Operator

Your next question comes from the line of Jeremy Tonet with JPMorgan. Please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Hi, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hey. Just wanted to dive into the capital program a little bit more if we could, looking at the $25 billion five-year plan as you laid out there. Just wondering if you could peel back the onion a little bit more on the $2 billion increase in cleaner generation at DTE Electric. Just wondering what specific projects, opportunities, how you think about that new capital?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Jeremy, if you'll recall, when we updated, we didn't provide an update at EEI because we were awaiting the outcome of rate case to make sure that our capital plans were supported, which that happened. And so when we updated in December, it really reflected the IRP settlement and a new legislation were both in flight.

And so I would say the combination of those two events, significant events, created incremental opportunity in our clean generation space. It accelerated our journey in terms of billing out renewables as well as a battery system. So that's really what drove the increase.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. And then just thinking about the capital program, I guess, broader and think about the Vantage, the non-regulated side. Just wondering, what do you think about, I guess, run rate expectations for CapEx there? Did some capital move from Vantage into regulated? Just trying to get a sense for how much capital could go there over time, how that could potentially shift depending on what regulated opportunities you see in front of you?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. Right now, we're showing $1 billion to $1.5 billion investment over the next five years and -- which is pretty consistent with our prior five-year forecast. So we really haven't made any significant changes there just yet.

A - David Ruud {BIO 16089859 <GO>}

Yes. We will see that can be a little lumpy depending on the projects that come in, too. So the project that Jerry was talking about on the prepared remarks that one will have a little more capital associated with it in '24, so the $1 billion, $1.5 billion can be a little bit lumpy as it comes in.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. And then just wanted to see, I guess, as it relates to CCS, if we could dive in a little bit more in, I guess, how do you think about timeline for when that could become more real, I guess, as far as capital is moving in there and as far as the -- I guess, the regulatory environment being supportive enough where you feel comfortable to kind of move forward there?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. I would say that in terms of carbon capture and storage, we're well advanced on three projects. And we're finalizing our arrangements with counterparties and some conditions precedent there to make sure that we got a viable transaction. But I would say it's feeling better than 50-50 that we're going to start executing on some capital there in that new business line. So pretty exciting.

They're small projects. Each of them are -- each of the three are anywhere between $50 million to $100 million. Pretty simple projects that doesn't require a lot of pipeline, pretty short pipelines. Most of the pipelines are right on the property of the customer, so is the wealth. So we're deep into it and we'll continue to give you updates on that. But it's a nice synergy with our utility -- electric utility, because we're, as we think about future power plants and using natural gas, we're going to need to capture the carbon and store it. So I think dipping our toes into this new business line creates value for investors, but also creates value for future utility investments that we'll need to make.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Very helpful. One last quick one, if I could, just as far as refinancing new bonds. How much of the, I guess, the open rate exposure on refinancings has been hedged at this point and derisked?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. So as you saw, we have about $2 billion of refinancings coming up at the end of the year this year, and the majority of that is hedged. It's $1.7 billion has been hedged of that at rates that are a little bit better than what we're seeing out there in the market now.

So we just -- we continue to like our overall debt portfolio like -- and with the rates we're getting that, that's all included within our five-year plan and consistent with our strong investment-grade credit rating and our 15% to 16% FFO-to-debt that allows us to issue minimal equity within our plan. I know it's a little more of an answer than you were asking, but we're in a good place with that.

Q - Jeremy Tonet {BIO 15946844 <GO>}

That's all very, very helpful, all those details. Thank you very much for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Durgesh Chopra with Evercore ISI. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, team. Good morning. Thank you for giving me time.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Good morning, Jerry and Dave. Just maybe can you comment on the financial implications of the January storm? That's part one. And then part two, as we think about the rest of the year, what level of contingency you have in the plan as it relates to worse than expected storms, bad weather, similar to what we had last year. So those two things, please. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. We've -- just let me take the storm expense. We certainly have increased our storm expense in our planning process, as we've seen storms increase over time and the cost that brings. So we feel pretty comfortable about the plan that we're carrying right now. And as you know, we also carry one standard deviation of weather, for example, in the winter, warmer than normal weather and -- or in the summer, one standard deviation of cooler than normal weather. So that's how we're planning.

And at this point in time, we feel pretty good about our plan. We're moving along and right on track. I think the storm that came in January consumed some of the storm expense budget, but of course, as you would expect, we're working to replenish some of that so that we can carry a full summer storm budget. So that's really where we're at with that.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Perfect. Awesome. That's really all I had. Thank you very much.

A - David Ruud {BIO 16089859 <GO>}

Thanks, Durgesh.

Operator

Next question comes from line of David Arcaro with Morgan Stanley. Please go ahead.

Q - David Arcaro {BIO 20757284 <GO>}

Hey, thanks. Good morning.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - David Arcaro {BIO 20757284 <GO>}

Let's see, you've got a renewable energy plan filing coming later this year, I think. I'm wondering if that could be an opportunity to reassess again and potentially increase the renewables in your outlook.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, certainly, our voluntary renewable plan is progressing really well, David. I'll just tell you that we've got 2,500 megawatts subscribed in our voluntary program and 2,600 in our five-year plan. So, we're -- it's likely that over time it will increase. We'll have -- obviously, our next filing will address the next couple of years of in-service requirements for our large industrial customers that we signed up and commercial customers. So, it could potentially be upside to our plan in the future as we continue to update our plan. So, hopefully, that helps.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. Yes. That's helpful. And I was wondering, does your current plan kind of fully embed the opportunities arising from the legislation as you're thinking about maybe beyond the renewable energy targets but also considering energy efficiency and the FCM and the potential upside on PPA contracts?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say that our current plan does anticipate incremental build-outs for the IRP and legislation. So I told you, our five-year plan for voluntary is 2,600 megawatts. We have an additional 1,800 megawatts that comes in as part of the IRP in that five-year plan. So that's all built in to the $7 billion clean generation number that you see on our slides.

In terms of PPAs, we're going to have to continue to assess what incremental value that will bring as we go along here. But it could bring incremental value.

A - David Ruud {BIO 16089859 <GO>}

Yes. And then as we look out past that, we're going to have to file a new IRP that will take into account this legislation even more. And so that will give us an opportunity to bring some more capital in. Maybe near the end of the five-year plan, but really probably a little bit past that, just more opportunity to do this clean energy generation.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Great. Thanks for the color. I appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Andrew Weisel with Scotiabank. Please go ahead.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi. Thanks. Good morning, everybody.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Andrew.

A - David Ruud {BIO 16089859 <GO>}

Hi, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi. First question is on the $300 million of lower fuel cost savings, very impressive number. Can you just give a little more detail? First of all, is that a year-over-year reduction, and how much of that relates to the fuel cost itself, the natural gas prices being lower than 2022 levels? And as a follow-up, just quickly, do you have an early read in 2024 in terms of forward curves?

A - David Ruud {BIO 16089859 <GO>}

Yes. The $300 million reduction in '23 that was really the recovery of the over collection that was in 2022. So, in 2023, we were kind of on our plan and just recovering what we needed to recover into -- not recovering from '22 in 2023, and then comes off our books for 2024. So far for this year, there's a little bit under recovery left, but we're forecasting things to be pretty flat with our plan for this year.

A - Jerry Norcia {BIO 15233490 <GO>}

And in the gas business, we're fully recovered there. We're in a good position there.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great. Then one more, if I could just sort of ask you to elaborate on the non-utility CapEx. So, we've been asked similar questions in a different way. Last year, the CapEx was $167 million. That was well below guidance of $300 million to $400 million. And now you're guiding to $550 million to $650 million for 2024. Can you just walk us through that a little bit?

I heard you mention there's some lumpiness, maybe certain investments were deferred. I'm guessing some of the high spending this year is related to that Ford announcement. I guess just overall, how confident are you in that 2024 number given how high it is?

A - David Ruud {BIO 16089859 <GO>}

Yes. Good question, Andrew. It's -- the capital investment really follows the development projects that we do within that business. And last year, we did three RNG projects and one custom energy solutions projects, but a smaller one. And that allows us to continue with the growth we need in that business and meet our targets.

This year, you're right, the Ford project that we're doing that we talked about in the prepared remarks is -- makes us confident that we're going to invest this. We talked about this a year or so ago. We had about $200 million of investment plan for this year from that. We've expanded that deal with them, and that's going to make up a good portion of the capital investment on non-utility this year. Still working on other projects as well, but it's really that custom energy solutions project with Ford that's going to take up a big chunk of that capital investment in '24.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Thank you very much.

A - David Ruud {BIO 16089859 <GO>}

Yes.

Operator

Your next question comes from the line of Michael Sullivan with Wolfe Research. Please go ahead.

Q - Michael Sullivan {BIO 23505966 <GO>}

Hey, everyone. Good morning.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, Michael.

Q - Michael Sullivan {BIO 23505966 <GO>}

Hey, guys. Maybe just wanted to ask on the trading business that did really well in '23, and I think Dave, you mentioned some of that flows through into '24, but just how conservative do you feel that range is for '24? And is this like a new normal that could extend even beyond '24 based on what you're seeing?

A - David Ruud {BIO 16089859 <GO>}

Yes. Michael, you're right. We did have some really nice favorability in 2023. And again, this is due to the premiums we get on the structured physical power portfolio. So it's all contract and hedged, just had really nice premiums in '23. As we said, we expect some of that to continue on into '24, probably not to the same extent as '23. But some of those contracts, they're one and two years. So we see some of them coming into '24 as well.

Now going forward, we'll have to see what happens. We're not guiding to anything higher than that. We get the same level of contracts as a business we've been in for a long time. We get the same level of contracts. We've just seen really good premiums in '23. And we're seeing those come back down. So it's probably not something we're going to guide to going forward. But it is good favorability. And exact same risk profile that we've always had too.

Q - Michael Sullivan {BIO 23505966 <GO>}

Okay. Great. Appreciate the color. And then I just wanted to pivot to the PBR proceedings at the Michigan PSC and just what are your guys thoughts on kind of where that stands and how that ultimately plays out?

A - Jerry Norcia {BIO 15233490 <GO>}

Michael, it's moving in the right direction in terms of sort of narrowing the variables that we'd be looking at for PBR. So we felt that, that was quite constructive in the latest release from the commission on that process. We still feel it'll be a symmetrical sort of benefit and incentive to perform. So we feel good about that. That's still holding together.

And we expect that there's really no timeline stipulated for the conclusion of the process. So we're thinking sometime between the middle of the year to early next year is when this process will conclude. But we're feeling that it'll be a productive process and a well-balanced process.

Q - Michael Sullivan {BIO 23505966 <GO>}

Okay. That's super helpful. Thanks, guys.

Operator

Your next question comes from the line of Sophie Karp with KeyBanc. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi, good morning. Thank you for --

A - Jerry Norcia {BIO 15233490 <GO>}

Good Morning, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

-- taking my questions. Hi. I have a couple of questions here, right? I guess staying on the energy trading business topic, right? Could you elaborate a little more on what market conditions enabling this relative strength and like what should we watch for in terms of this potentially reversing in the future or continuing for longer if you will?

A - David Ruud {BIO 16089859 <GO>}

Yes, these are markets where we bid in to utilities within PJM and New England, mainly, and to serve their load. And as we bid in, we get contracts, and those contracts will have premiums associated with them. We just saw really nice premiums in '23, some of which carry on into '24. So we'll be able to -- as we go through '24, we'll be able to let you know more about what we see for future years on those premiums.

And then, the rest of that business is really gas physical business, which again is contracted and hedged. So it's really just kind of success of our trading group in setting up these structured physical and hedged positions that is making it have these successful years.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. And how much visibility do you have in that? It sounds like maybe less than 12 months out, if you would be updating us as you go.

A - David Ruud {BIO 16089859 <GO>}

That's right, it is -- most of these contracts are one year. Some go a little longer, but most of them are for like for one year and then kind of see where they come in again the next year. That's why we continue to guide usually the $25 million. We went to $35 million because we see that, but we're not pushing to something higher than that in the future years.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. And then I just want to be clear on what you're saying about your capital plan. How much of the new energy law opportunities is reflected in it? It sounds like what you're saying is that you have reflected opportunities that would be presented by the new energy law in Michigan in your plan already. So the incremental opportunities stemming from this legislation should be fairly limited. Am I hearing this correctly?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say in the first five years, that's correct, Sophie. We've -- the IRP and the legislation is reflected in the five-year plan. And we'll continue to update that as we go forward. It's not beyond the five-year plan. There is some further acceleration that we could see. But we'll continue to update that each and every year and hopefully in November -- between November and the end of the year.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you so much. Appreciate it.

A - David Ruud {BIO 16089859 <GO>}

Thanks.

Operator

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

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

Excellent. And just -- good morning, guys. Thank you very much.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Julien.

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

If you just think about last question -- hey, good morning. Just with respect to the last question there on what's reflected in the plan, I just want to clarify on the PPA ownership piece, or the PPA earnings piece, the compensation mechanism there. That is reflected for the one-third piece in the IRP settlement and therefore in your outlook rate. So again, as you talk about this, the different pieces, the substantive upside from the legislation really moves beyond the five-year period at this point. Just on the compensation, specifically.

A - Jerry Norcia {BIO 15233490 <GO>}

So. Yes, again, the ownership component is reflected in our capital plan. The $7 billion component of clean energy generation, that's in our plan. The financial compensation mechanism, we'll have to see what levels we sign the PPAs at. Obviously, as you know, it's tied to the price that we sign the PPAs for. So as we sign those, we'll continue to update our plan. But it will provide some incremental value in our plan as we go forward, if that's what you're asking.

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

Yes, right. So the FCM is included at least preliminarily to the extent to which that might need to be updated later.

A - David Ruud {BIO 16089859 <GO>}

There's thoughts -- we have something in there for it now. But as we sign PPAs, there should be some upside in the plan to that, what we have in there now.

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

Got it. All right. Thank you for clarifying. I know it was back and forth here a little bit. All right. Excellent. And then just coming back to the top of the roster on the Q&A, real quickly on the RNG conversation briefly. Sounds like that was non-committal and frankly, it seems like opportunistic to the extent which you might see something of interest to you given where your balance sheet sits.

Is there something about like resolution and IRA's regs on RNG and how that's treated under IRA that's driving some decision tree here for you guys? Or I just want to make sure I heard that right. That it doesn't seem like that's a particularly pressing subject for you guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. I would say that it's not imminent. Some sort of optimization of our RNG portfolio. We like the returns, we like the cash flows from it. And actually the IRA, Inflation Reduction Act has been quite beneficial to that business from an ITC, Investment Tax Credit perspective. It's made projects more attractive and higher return.

And we're also seeing positive movement in some of the markets, like the federal market moved in a very positive direction under a renewable fuel standard that is. And in California, the California Air Resources Board is looking to tighten up the carbon intensity targets. So I think as that plays out that will provide even more upside in those markets as we see them today.

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

All right. Excellent. Right. So it doesn't sound like you're too worried about the way the IRA's regs came out in terms of being able to move.

A - David Ruud {BIO 16089859 <GO>}

We are monitoring that and we're commenting, but we're not overly concerned. We don't think that it's really consistent with what the congressional intent was there either. So we're just continuing to -- we're continue to watch and monitor and comment, but not overly concerned.

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

Okay. Wonderful. Excellent. Thank you guys very much. All right. Take care.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Julien.

A - David Ruud {BIO 16089859 <GO>}

Thanks, Julien.

Operator

Your next question comes from the line of Gregg Orrill with UBS. Please go ahead.

Q - Gregg Orrill {BIO 21090160 <GO>}

Yes, thanks for the question. Just maybe --

A - Jerry Norcia {BIO 15233490 <GO>}

Hi, Gregg.

Q - Gregg Orrill {BIO 21090160 <GO>}

Hey. Just following up on the RNG, are you able to provide how much that contributed in 2023 and also the steel business?

A - David Ruud {BIO 16089859 <GO>}

Yes. We saw -- we did see some good upside from the RNG because we brought in three new projects in '22 and in '23 and associated with some of that there's some tax credits that come with that, that helped out in '23.

The steel business was the other part that gave us the favorability that we saw in 2023. Probably a little over half of what we saw there and that's was due to some opportunistic sales of some of our byproducts, some of the other products we're making within that business, and some other kind of one-time things that we've done there. So it was some good one-time opportunity that we saw in the steel business and the RNG development.

Q - Gregg Orrill {BIO 21090160 <GO>}

And how are you thinking about the returns in the RNG business, just how they're trending?

A - David Ruud {BIO 16089859 <GO>}

We have noticed it's gotten a little more competitive as more people have come in. We used to say we got high-double-digit unlevered after-tax returns. We're still seeing good returns, particularly where we see it is in our conversion projects. We have projects that now make power that we can convert to make in RNG. And so in those projects, we continue to see what we would say are very strong returns. And then there's still a good development pipeline that has strong returns as well.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. We're still seeing unlevered returns, and I would say, north of 10% unlevered after tax, so in the teens, low-teens.

Q - Gregg Orrill {BIO 21090160 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Anthony Crowdell with Mizuho. Please go ahead.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Good morning, Jerry. Good morning, Dave.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Anthony.

A - David Ruud {BIO 16089859 <GO>}

Hey, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, just two quick ones. Most of them have been already answered my questions, but just, I think you talked about a potential rate filing late first quarter, early second quarter electric filing. Just, do you expand the undergrounding program in that filing, or as much as you'd like to disclose thoughts on expanding the undergrounding in the filing?

A - Jerry Norcia {BIO 15233490 <GO>}

Anthony, we put 5 miles underground in last year in 2023, and it went really well. And what we're doing is proposing that we continue to do more. This is going to take a few years to ramp, Anthony, as we kind of work with our commission. We actually had the commission staff out looking at some of the undergrounding that we did in the last few days. And so they -- I think there's a process here to make sure that we're working together with our commission to come up with a reasonable plan.

I would say the key part of it is we need to ensure that on an NPV basis, undergrounding is going to be at least equivalent or better than putting it up in the air. We've got 19,000 miles of infrastructure to replace. It's very old. It's a 4.8 kV system. So a huge opportunity from a customer perspective to improve infrastructure for the future. And we'd like to put as much of that underground as we can, but we're going to have to prove out the concept.

So we're in the early stages of proving it out to ourselves and then secondly to our commission. So that's where we're at with it. I think it's going to take a few years before we can ramp it, but we feel pretty good about how smoothly the first 5 miles went. It's all directional bore through very highly congested urban areas. So very cool project, more to come on that.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then just a quick follow-up, I guess I'll throw it to you, Dave, or Jerry, if you want to take this, it's fine. Just, I guess, on a credit metric basis, where did you end 2023? And I think your target range is 15% to 16%. When do you believe you'll hit that target range?

A - David Ruud {BIO 16089859 <GO>}

Yes. We did end '23 right around 15%, Anthony. And as we look through the five-year plan, we stay within that range throughout the five-year plan that we talked about, even with the minimal equity that we're issuing.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions and congrats on a good quarter.

A - David Ruud {BIO 16089859 <GO>}

Thank you, Anthony.

Operator

The next question comes from the line of Ryan Levine with Citi. Please go ahead.

Excuse me, Mr.Ryan Levine, your line is open. Please go ahead with your question.

Q - Ryan Levine {BIO 19520640 <GO>}

I apologize. Yes, so good morning. Hoping to follow up on the utility ownership versus PPA of some of the generation assets. Is your plan largely solidified at that point or is there opportunity to convert some of the owned assets into PPAs given the incentives that the law provides?

A - Jerry Norcia {BIO 15233490 <GO>}

I'll let -- Ryan, thanks for the question. I'll let Dave to elaborate, but I'll start by saying that we prefer to own the assets for really two reasons. One is, if you look at the value to our customers, it's much more affordable for our customers for us to own the assets. And then secondly, for our investors, it provides a much greater significant EPS growth opportunity if we own. So, we don't see converting any current ownership to PPAs.

Dave, did you want to add to that?

A - David Ruud {BIO 16089859 <GO>}

No, that's exactly right. It's better for our customers. We've gotten really good at developing these projects, and we're the leading renewable developer in the state and continue to do it. And what we see is the lowest price, which is kind of borne out through the auctions that we're in. So, we think it's better for our customers.

And then, on an EPS basis, investing the capital is better for our shareholders as well. So, I don't know that we'll be converting any. We'll do what we need to do, but in the FCM it's great. It's great addition for the PPAs that we do, do, but it's still much better for our customers and much better value if we continue to develop these.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. And are you still pursuing opportunities to build dedicated pipelines to chemical plants in your service territory but that you maybe have been pursuing in the last few quarters?

A - Jerry Norcia {BIO 15233490 <GO>}

Are you referring to carbon capture and storage, Ryan, when you --

Q - Ryan Levine {BIO 19520640 <GO>}

We have more carbon dedicated pipes, correct.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, we are. We've got three transactions that are well advanced with large carbon dioxide producers, and we're looking to capture that CO_2 source and store it underground, essentially on their property. These are very short pipelines, a couple thousand feet each, less than a mile. So we're looking to finalize those arrangements and also satisfy some of the technical conditions precedent that we want to accomplish before we get too far into that business.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. Great. Thanks for the question. Thanks for the answer.

A - David Ruud {BIO 16089859 <GO>}

Thanks, Ryan.

Operator

I would now like to turn the call back over to Jerry Norcia for closing remarks. Please go ahead.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you, everyone, for joining us today. I'll just close by saying we're feeling great about 2024 and also our long-term plan, as well as our position for future years. Have a great morning, and stay healthy and safe.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining, and you may now disconnect your lines.