Q1 2022 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, Analyst, Scotiabank
- Angie Storozynski, Analyst, Seaport
- Anthony Crowdell, Analyst, Mizuho
- Insoo Kim, Analyst, Goldman Sachs
- Jonathan Arnold, Analyst, Vertical Research Partners
- Michael Sullivan, Analyst, Wolfe Research
- Ryan Karnish, Analyst, JP Morgan
- Ryan Levine, Analyst, Citi
- Shar Pourreza, Analyst, Guggenheim Partners
- Travis Miller, Analyst, Morningstar
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy First Quarter 2022 Earnings Conference Call. (Operator Instructions) Thank you.

It's now my pleasure to turn today's call over to Ms. 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 two of the presentation. Including the reference to forward-looking statements, our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix.

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>}

Thanks, Barb, and good morning everyone, and thanks for joining us. On today's call, I'll start off by discussing DTE's strong start for 2022 and provide highlights on our transition to cleaner generation. Dave Ruud will provide a financial update and wrap things up before we take your questions.

As shown on slide four, the success that DTE has achieved continues to be the result of our focus on employees, customers and communities. We continue to focus on improving the health and well-being of our team, and cultivating deeper employee engagement, which results in being able to deliver service excellence.

Beginning with our team, for the 10th consecutive year DTE earned the Gallup Great Workplace Award. When we won our first award, they told us the hardest thing to do would be to win it again. And now, we have done it for a full decade. I'm proud of this recognition, which shows the dedication and engagement of our team. And as you know, we've said before, high engagement is the secret sauce that drives our success. I've always said, if we serve each other well, we can deliver for our customers, our communities and our investors, and we're doing just that.

On the customer front, one of our top priorities this year is to further harden our system in preparation for the upcoming storm season. As you know, we experienced extreme weather last year and we are working toward building an even more reliable grid of the future.

DTE's reliability plan is focused on four strategic pillars, tree trimming, infrastructure resiliency and hardening, infrastructure redesign and technology automation, and we are focusing these efforts on areas that we know are most vulnerable. Tree trimming, we are enhancing our efforts and have greatly increased our investment with a particular focus on the most vulnerable circuits to improve reliability and customer satisfaction. And we know that surfaces that have been trimmed have experienced a 70% improvement in interruptions and a 65% improvement in outage minutes. So, we know this effort yields results.

We are also converting existing electric circuits to a modern distribution system. Circuits which have been hardened experienced an 80% improvement in the average number of sustained interruptions and a 43% reduction in wire-down events.

We continue increasing our investment and remote monitoring and control devices, building an advanced distribution management system, modernizing our system operation center which started operating in February, and enhanced cyber security. We remain committed to meeting our long-term reliability targets and improving our customers' experience.

Moving onto our communities, we are making strides and providing support through our workforce investment priorities, which include increasing the number of jobs for those with barriers, enhancing job readiness and attracting employers to Detroit and other areas in Michigan.

One example of our efforts is the Tree Trim Academy we've built right here in Detroit. This program individuals to become apprentices and importantly, it teaches skills to prepare them for the responsibilities of the job. Tree trim jobs bring prosperity to people who pursue them and also offer a strong pipeline to longer-term opportunities such as overhead line work. Upon completion of the Tree Trim Academy, graduates begin their apprenticeship which takes about 2.5 years to complete. During this time, journeymen tree trimmers make a good wage with full union benefits for themselves and their families. It's a great example of matching a business need with the community need, and that's when we get magic.

We are proud that our Tree Trim Academy was recently recognized by Boston College with its innovation award in the category of transformative partnership. With highly engaged employees, customers who are satisfied with their service and communities that are resilient and thriving, we will continue to deliver value for our investors.

Let's turn to slide five. We delivered a strong first quarter with operating EPS of $2.31, fueled by solid performances across all of our business lines. And we are on track to deliver 7% operating EPS growth from our 2021 original guidance midpoint.

At DTE Electric, we filed our first general rate case in almost 3 years. This rate filing is really about moving our infrastructure investments forward, and we continue to focus on doing this in an affordable way. I'm proud of the work we've done with the Michigan Public Service Commission to develop innovative ways to maintain affordability, and we will continue to focus on keeping rates manageable as we invest in the system.

Following a very successful 2021 for MIGreenPower, our voluntary renewables program, we hit an important milestone in early 2022 with over 50,000 residential customers now subscribing to the program. At DTE Gas, we are accelerating the 35% reduction target of Scope 3 customer greenhouse gas emissions a full decade, from 2050 to 2040. Advancements in greener technologies like green hydrogen, carbon capture and sequestration, renewable natural gas and customer voluntary offset programs will enable the Company to accelerate this goal.

We also continue our important main renewal work with a target of completing another 200 [ph] miles in 2022, ensuring we can continue providing safe and reliable service to our customers. Our Natural Gas Balance program is also progressing, and we have over 6,500 customers subscribed to offset their greenhouse gas emissions. We are proud of how this first-of-its-kind program is growing.

Additionally, DTE Gas launched another project that showcases our commitment to a clean energy future in Michigan. We partnered with the City of Grand Rapids to help supply renewable natural gas to fuel their vehicles. This RNG will supply natural gas fueling stations as well as power buses and fleet vehicles.

At DTE Vantage, we have multiple onsite energy projects and dairy RNG projects coming online in the second half of the year. This is in addition to the conversion project I mentioned in our year-end call that goes into service in 2023. With this new project, DTE and our 50% partner will build a new RNG facility to take biogas from our Michigan-based landfill and convert it into pipeline quality renewable natural gas. Additionally, we have a strong pipeline of projects that support growth in this business, including additional landfill to RNG conversions.

We feel great about our strong start to the year and we're confident in achieving our 2022 operating EPS guidance. Our robust utility capital investment plan of $18 billion over the next 5 years and $40 billion over the next 10 years supports our future growth. We have a history of achieving the high end of our operating EPS growth target, and as I've said, we continue to evaluate our long-term growth target and expect to provide an update on this later in the year as we update our 5-year plan. We are also targeting dividend growth in line with our operating EPS growth.

Now on slide six, we're more focused than ever on our environmental initiatives, including several significant milestones in 2022. The Blue Water Energy Center, our new natural gas plant, is on track to go into service later this quarter. This state-of-the-art facility has an 11,00-megawatt capacity and was constructed on time and on budget.

Also this year, our Trenton Channel and St. Clair power plants will cease operations. After this transition, roughly 38% of DTE's generation mix will be attributable to the coal. And by 2028, after we cease coal use at our 1,000-megawatt Belle River power plant, coal will represent less than 30% of our generation mix. We are well on the path toward our net zero emissions goal.

As we highlighted last year, we are filing our Integrated Resource Plan in October this year. We continue evaluate the opportunity to exit coal use at the Monroe power plant earlier than 2020. We hosted meetings for the public to participate in shaping our Clean Energy Plan. Getting our stakeholders' input early in the process ensures that what matters most to them is taken into consideration as we work to achieve the right balance of energy resources that will provide cleaner, affordable and reliable power for decades to come.

I'll just round out my comments by telling you how very excited I am about the position of our Company, with the progress we have made and the opportunities we have in front of us. We are off to a strong start in 2022 and we are in a great position to deliver on our targets. We are seeing favorability at both utilities and we are finding ways to use this favorability to create a highly successful year in 2023 as well as the years beyond that.

In the longer term, I've highlighted a number of investment opportunities this morning, including the acceleration of coal retirements and transition to more renewable power, building the grid of the future to combat more severe weather and support the prospect of significant demand growth, and finally to continue replacement of cast iron main and steel in our gas utility system, preparing that business for long-term success.

As you can seem, we have a great line of sight of customer-focused investment in our system for the next decade. This puts us in a strong position to deliver for our customers and investors in both the near term and the long-term.

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

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning, everyone. Let me start on slide seven to review our first quarter financial results. Operating earnings for the quarter were $448 million. This translates into $2.31 per share. You can find a detailed breakdown of EPS by segment including a 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 $201 million for the quarter, ahead of our internal plan but slightly lower than the first quarter last year. The drivers of the variance were higher rate-based cost and higher O&M, which included the additional investment in the acceleration of our Vegetation Management Program. This was partially offset by cooler weather and the acceleration of the deferred tax amortization in 2022 that was implemented to delay the filing of our rate case and keep rates flat during the pandemic.

Moving onto DTE Gas, operating earnings were $196 million, $27 million higher than the first quarter of 2021. The earnings increase was driven primarily by the implementation of base rates and cooler weather in 2022, partially offset by rate-based costs.

Let's move to DTE Vantage on the third row. Operating earnings were $14 million in the first quarter of 2022. This was a $14 million decrease from the first quarter last year due to the sunset of the REF business at the end of 2021, partially offset by higher RNG earnings this quarter. We remain on track to achieve full-year guidance to DTE Vantage.

On the next row, you can see Energy Trading had another strong quarter, mainly due to strong performance and also some timing in our physical gas portfolio. The accounting timing favorability was largely due to strategic long positions that support physical positions later in the year. Due to these timing related gains, we're not changing our conservative full-year guidance as some of the favorability could reverse later in the year.

Finally, Corporate & Other was favorable $22 million quarter-over-quarter, primarily due to the timing of taxes. Overall, DTE earned $2.31 per share in the first quarter, so a strong start to the year puts us in a great position for the remainder of 2022.

Let's turn to slide eight. 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 equity units that will convert later this year. 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. In the first quarter of 2022, DTE completed a green bond issuance of $400 million. This is DTE's fourth green bond issuance in the past 5 years for a total of over $2.5 billion. DTE is Michigan's leading producer of, and investor in renewable energy, and these funds support our net zero emissions goals.

Let me wrap up on slide nine, and then we will open the line for questions. In summary, we feel great about the start to the year. Through the remainder of the year, DTE will continue to focus on our team, customers, communities and investors. We are on track to achieve our 2022 operating EPS guidance midpoint of $5.90 per share, which provides 7% growth from our 2021 final guidance midpoint.

Our robust capital plan supports our strong long-term operating EPS growth by delivering cleaner generation and increased reliability, and focusing on customer affordability. DTE continues to be well positioned to deliver the premium total shareholder returns that our investors have come to expect, with 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 up the line for questions.

Questions And Answers

Operator

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

Q - Shar Pourreza

Hi, good morning, Jerry and team. It's actually...

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar -- hi, how are you doing?

Q - Shar Pourreza

Okay. Congrats on a great quarter and start to the year. My first question is on the IRP. Michigan had a strong recent data point for IRP mechanisms like the regulatory asset treatment and the increasing administrative support for clean energy. How does that inform or change the outlook for the October IRP? Do you see a stronger case for some of the accelerated retirements that you've been talking about?

A - Jerry Norcia {BIO 15233490 <GO>}

We do and we thought it was a really constructive outcome, which continues to be the case here in Michigan where we have constructive policies, energy policies and constructive commission to administer those energy policies. So, we are really encouraged by it. We are also really encouraged by the fact that it's a balanced outcome between renewables and dispatchable resources to ensure both reliability and affordability for the state.

So as it relates to our IRP, we continue to interact with various stakeholders and taking in their feedback. And we are looking to retire Belle River, as we mentioned, off [ph] coal use in 2028 and convert it to gas. And certainly, we are looking really hard at how aggressive we can pull forward the retirement schedule for the four units at Monroe, which is our largest coal plant. So, much of that is in progress. So, we are consulting. We are highly encouraged by the outcome and certainly we'll support what we plan to file.

Q - Shar Pourreza

Thanks, that's helpful. And as we're thinking about the longer-term financing needs, you notably stand higher than some of the peers on metrics. And combined with the business mix improvement over the years, do you envision more flexibility from rating agencies on thresholds and is there are a range of scenarios where you could utilize some of that dry powder like you talked about the opportunities on IRP, resiliency [ph], et cetera.

A - David Ruud {BIO 16089859 <GO>}

Yeah, hi. (inaudible) David Ruut, how are you? Yeah, you do -- we do still have that pretty conservative 16% FFO to debt number that's in there and when you look across some of our peers and with the rating agencies, that does give us some good headroom to any of the downgrade levels. So, we like the position we are now. We like having that strong position. But it's something that we'll continue to think about as we go forward.

Q - Shar Pourreza

Excellent. And maybe just a quick aside on DTE Vantage, is the focus still on (multiple speakers) growth and we have noted the market getting a little bit more competitive. And there has been some opportunities to include R&D into rate base on the regulated construct. Is there a potential parallel path forward there?

A - Jerry Norcia {BIO 15233490 <GO>}

Right now, we're concentrating on greenfield projects in the RNG space, and we've been able to find really nice projects that give us mid-teens type of unlevered returns after tax and cash payback in a 3-year to 5-year time frame. And as you just saw, we found a project like that in Michigan where we are actually converting it from power generation to RNG, and the IRRs are even stronger than the ones I mentioned for those types of projects. And we've got a good list of opportunities in that regard and we're very selective because we're only looking for $7 million, $8 million a year to come from that space and the other half of our growth is coming from on- site -- projects management of onsite energy infrastructure and we've got a good -- some good prospects in that space as well and those are typically underpinned by long-term fixed-fee type of arrangements with good IRRs. So, good pipeline of opportunities there. We are still continuing to see nice growth advantage.

And in terms of rate base, we do have an RNG project that we're doing with the City of Grand Rapids, but it's really their wastewater treatment facility that is producing the RNG and we're investing to make it pipeline quality and inject it into our system. So, that's some opportunity but I would say that's modest at this point in time.

Q - Shar Pourreza

Okay, understand. That's a very helpful update. Thank you so much. Thanks for taking the questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - Ryan Karnish {BIO 21726891 <GO>}

Hi, good morning. This is actually Ryan Karnish on for Jeremy. Thanks for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Ryan.

Q - Ryan Karnish {BIO 21726891 <GO>}

Good morning. I guess I just wanted to follow-up on DTE Vantage there. And I appreciate you guys keep kind of finding effective projects, but just thinking through the relative kind of competition in the RNG space, would you consider at any point maybe monetizing that asset or partial monetization or do you still kind of see a good runway to kind of keep growing it organically?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we certainly see a good runway to continue to grow organically and we've been really focused on organic development. When you are looking at existing operations, there are attracting a very high premium. So when you asked about would we consider selling that business, we're always looking for ways to optimize and maximize shareholder value. I think you can see that in our TSR, the 10-year, 5-year, 3-year and 1-year were at the top of the -- top of our peer set, and that's because we always look for ways to maximize value.

So, if we do see an opportunity where it could be valued more than how it's currently valued in our portfolio, we would seriously consider. We're always on the lookout for those opportunities.

Q - Ryan Karnish {BIO 21726891 <GO>}

No, understood. I appreciate the color. And then, just one for me on what you're kind of seeing at this point on the supply chain side. I know solar in particular has been a big focus across the sector. I don't know if there's anything that you kind of note that you're seeing across your supply chain or any concerns you have over the remainder of the year, either on the O&M side or the capital side?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, I would say on the solar piece, obviously that's a big topic in the industry with the recent Department of Commerce matter that's evolved, that I'm sure many of you are familiar with. And for 2022, there is no impact. We have what we need. We did have a built in 2023, about 300 megawatts that we're looking to build to support our voluntary program. If that was delayed into 2024 because of the Department of Commerce actions, they really have no impact on our 2022, 2023 earnings and we can manage through that quite easily.

If it persists longer term, certainly we have a deep portfolio of capital investment opportunities at our utilities that we can deploy, as we've mentioned before. But we're still really excited about our voluntary program where you've got about a 1,000 megawatts signed up already and another 1,200 megawatts, what I would say is late stages of negotiations. So, still a very active program and our customers love the product. So, we're hoping that this issue with the Department of Commerce resolves itself quickly.

Q - Ryan Karnish {BIO 21726891 <GO>}

Sounds good. Thank you.

Operator

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

Q - Unidentified Participant

Hey, good morning. This is Darius [ph] on for Julian. Thank you for taking the question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Unidentified Participant

My question -- (multiple speakers) I just wanted to touch on briefly about -- I think you mentioned in the opening remarks, later in the year expecting an update on the long-term cadence. Just curious, are you waiting on any specific inputs or developments between now and that expected update or is it more just a preference to maintain your historical cadence of getting that update usually in the November time frame?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I would say that one of the key things that we're looking to finalize is our Integrated Resource Plan, which we will file in October, and that will provide significant instruction, if you will, in terms of what our long-term capital plans will be. And so, that's why we are timing it with sort of a fall period in terms of updating our long-term 5-year plan.

And that's pretty traditional how we do it. So I think two reasons, one is the IRP is really -- will shed light on our long-term capital plans as we look to transform our generation fleet. And secondly, it's usually the time that we do update our 5-year plan.

Q - Unidentified Participant

Great, thank you. That's very helpful. One more if I could just on how things are shaping up here in 2022. It looks like once again and the Energy Trading segment did quite well in Q1. Just curious, I mean are you expecting now given that strong result in Q1 to be trending to the upper end of your guidance range for the year or perhaps are there other items that you're seeing coming up in -- later on in the year that might mitigate that?

A - Jerry Norcia {BIO 15233490 <GO>}

I'll start by saying that Dave and I both mentioned in our opening remarks that all of our BEUs [ph], our building contingency, our electric company, our gas company, primarily due to weather and certainly Vantage is tracking ahead of plan as well and of course, you've seen the results at trading which are also tracking significantly ahead of plan.

So, we will likely provide an update after the second quarter as to where we are -- where we expect our EPS to trend toward. We have a good feel for the summer weather shaping up. So -- but I can tell you that we are building contingency above our midpoint at this point in time.

Q - Unidentified Participant

Okay, great. Thank you. That's very helpful. I'll pass it along here.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question is from the line of Angie Storozynski with Seaport. Your line is open.

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. I was just wondering, given what we saw in the MISO capacity auction that the region -- clarity is struggling to manage the load with generation resources. And granted that it's just one-year forward, but is there any thought that maybe you might be rethinking the timing of your coal plant retirement?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thanks for the question, Angie. The retirements that we've made have been essentially replaced almost completely by two acquisitions -- gas plant acquisitions that we made about 5 years or 6 years ago and also the construction of the new Blue Water Energy Center, which is 1,100-megawatt combined cycle plant.

So, we've brought online into our portfolio over 2,000 megawatts of dispatchable generation to replace the 2,300 megawatts of coal retirements. In addition to that, we've built wind as well, which also provides energy, not necessarily a lot of capacity during the summer months, but certainly provides energy supply. The state is running tight on capacity and there is concerns about how we -- how the state moves forward in that regard. But we feel like from our perspective, we've got adequate supply to supply our demand. Now, we do have coal plants that have been retired and will retire like St. Clair power plant, for example, is 1,100-megawatt coal plant that, if necessary, we could bring back online if there was an emergency situation, but that's certainly something we'll rely on MISO to make a determination.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then, moving on to Vantage, I heard your comments about looking at ways to extract value from this business. But we would -- it would be great if you guys could provide us with some additional disclosures, especially around that -- and segmentally for that business. Now, when you look at public comps for RNG company and (technical difficulty) for district energy, do you -- I mean do you see big differences between the assets that you have and develop and those that have been changing hands or you think that those public comps are just good indicators of the value of these assets -- of your assets?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, we're looking at those pretty hard, Angie, and watching them and then comparing them to how we feel it's valued in our portfolio. So, we're constantly we are looking at those and -- but it's something that we're looking at very hard always to see we better -- are we the better owners or are others better owners of these assets.

I can tell you that provides nice cash flows and nice returns for our current investors. But Angie, we remain very open to creating value always. If there is an opportunity to create incremental value, we will pursue it.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay, thank you. (multiple speakers)... Could you repeat -- Angie, could you repeat the question on net disclosures? I... Yeah, I was just -- because you guys showed us --, I don't see any slide on Vantage in today's presentation, I think I didn't at least. In the past, you guys showed us a breakdown of net income. I was hoping that we could see a breakdown of EBITDA because of those peers and other private transactions that have happened, we'd like to see where (inaudible) were done on (multiple speakers) multiples and I was just hoping that we could get some insight into that.

A - Jerry Norcia {BIO 15233490 <GO>}

Right, we'll note that. And thanks for that feedback.

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question is from the line of Insoo Kim with Goldman Sachs. Your line is open.

Q - Insoo Kim {BIO 19660313 <GO>}

Hi, guys. Thank you. First question, going back to Vantage and just more on a fundamental basis, how do we think about in a higher price gas environment that we're in currently, how the -- I guess the demand for RNG projects or -- in that realm gets impacted at all by that, just curious on your thoughts on whether you've seen any changes there.

A - Jerry Norcia {BIO 15233490 <GO>}

We haven't seen any fundamental changes, certainly in demand. Most of this product goes into the transportation markets, especially the very gas goes into the California transportation markets and so we have not seen a change in demand. We have seen some changes in the federal pricing for the product as well as the California pricing for the product. But overall the pricing is right on top of our pro forma. I don't know, Dave, if you want to add anything to that?

A - David Ruud {BIO 16089859 <GO>}

I think that's right. And I think as we're seeing more LDCs put RNG coals into their system, we're actually seeing demand for RNGs over time -- it feels like it's going to be rising. So, I think demand for the product is going to go -- is going to be going up.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Yeah, I just wanted to get clarification on there. And then my second question, I guess obviously, whether it's labor or materials inflation on the cost side and now impacting the entire world, but I did see on in the Electric utility segment you pointing out O&M a little bit. But just broadly, given the contingencies you have, I think you're relatively comfortable to manage that. But just with the trends you've seen, has the increase in -- whether it's labor costs or materials costs been more pronounced than you would have expected I guess when you -- just a few months ago when you gave guidance?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, this is something we are watching very closely and we are planning accordingly to ensure no negative impacts to our plans. First, I'll say, we've demonstrated long history of being able to manage cost effectively, including inflation. And so far, we are not seeing the impacts of inflation here and I think it's really how we're structured now. About 85% of our spend is through services and we just haven't seen as much inflation there. And then, we also have a lot of long-term contracts that service well through these periods.

So overall, not seeing any negative impacts to our plans for the year or longer-term plans. The O&M at Electric was a little higher, but that was mainly due to accelerating some of our tree trim spend that we wanted to get through quickly to help our reliability as we came through from summer, but not an inflation impact there.

Q - Insoo Kim {BIO 19660313 <GO>}

Okay, that's good color. Thank you so much.

Operator

Your next question is from Jonathan Arnold with Vertical Research Partners. Your line is open.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi, good morning guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, hi.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Just on Vantage, you obviously said here that it's ahead of plan and I think you raised the plan last quarter. When we look at the -- whatever quarter came in relative to annual guidance, it looks a good bit below what just the average run rate would be. So, can you maybe talk a little bit about seasonality in that business post-res [ph] and also just to what extent that catch-up is going to come from new projects, et cetera?

A - David Ruud {BIO 16089859 <GO>}

Yeah, that's a good question. I think you nailed most of the answer in your question. First, we do feel really good about this segment and where we are relative to our year-end guidance and being able to come in at that. This quarter is lower than the expected annualized number, but it's primarily due to some known plant outages that we had. And so, it's going to be made up through the year as that happens. And then we do have some projects that come online, some RNG and some industrial energy service projects that come online later in the year. So, we feel really good about our guidance for this segment.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thanks for that, Dave. And then just on trading, you talked about operating and then also some of it was timing. Can you maybe unpack for us a little bit how much is timing that you think may reverse and how much is sort of just straight out performance?

A - David Ruud {BIO 16089859 <GO>}

Yeah, we had a great quarter in trading and it's -- primarily it all came in our gas physical business where we're serving LDCs and producers. And what we saw is a lot of it is just great performance but about half of it could be timing that can -- that will play out later in the year. So, that's why we're not raising guidance on this right now, it is because we want to see how that timing plays out. But it's -- a little over half of it was -- of our perform -- of it was performance and then there is some of that is timing that we have hedged positions that can change or they can come down as we flow the gas later in the year.

Q - Jonathan Arnold {BIO 1505843 <GO>}

So it sounds like you're saying it may reverse, but you are not committed -- you don't necessarily see that?

A - David Ruud {BIO 16089859 <GO>}

There is some that we know will reverse and some that may reverse.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. And then maybe if I could just squeeze in one other just a high level one, yeah, some updated thoughts on just where you see customer bill trajectory shaping up relative to inflation out there? You've obviously had the rate case. We've got fuel costs on the up. You've been pretty good at finding ways to mitigate -- there's still pressure. So maybe just some thoughts around that too.

A - Jerry Norcia {BIO 15233490 <GO>}

Sure, Jonathan, maybe I'll start and Dave can add to it. But let's start with the Electric Generation portfolio. One of the values we have in a diversified portfolio where we've got wind, nuclear, gas and coal in the portfolio, it allows us to weather some of the commodity pressures as well as the fact that with our coal purchases, we're purchased through 2023 from a price perspective. So, we feel really good about our coal purchases which is the bulk of our generation assets at this point in time.

And of course nuclear as well, so we're purchased through 2028. So, we feel good about that as well. So I feel on the generation side, the fact that we have a diversified portfolio and that we're somewhat hedged for some time help soften the commodity price pressures that the industry is seeing. On the natural gas business (technical difficulty) see we've got north of more than 75% of our gas purchase for the winter of 2022, 2023 and about 25% purchased from a price perspective for the 2023, 2024 winter, and that's just normally how we've bought gas at the LDC for over a decade and it helps smooth the ups and the downs in gas pricing for our customers. But if these prices persist for multiple years, then I think we will start to see pressure.

And we're starting to look at ways how we can offset those pressures through cost reduction initiatives as well as revenue initiatives that -- we see opportunities development in our business. So I don't know if that helps, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Yeah, it's great and also good context there. Thank you, Jerry.

Operator

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

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi, thank you. Good morning, everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Hi Andrew, how's it going?

Q - Andrew Weisel {BIO 15194095 <GO>}

Good, thanks. My first question is, I want to follow up on renewables. I appreciate your comments on the DOC and supply chain concerns, but what about the more local issues? How big of our NIMBY issues in Michigan or the debate around rooftop solar and cross-subsidization? And just sort of how do you think about those risks potentially impacting your near-term plans?

A - Jerry Norcia {BIO 15233490 <GO>}

So I would say, we've got a really strong land position for solar and we're working really closely with municipalities to ensure that there is a productive outcome when we go for permitting. That's usually where, as you mentioned, there could be pressure points. And we certainly secure more acres than we will likely need because we know that there is always going to be problems with some of the acreage that we've optioned for the solar developments. But I can tell you that we've optioned tens of thousands of acres and we feel pretty confident that we can execute the plan that we have in front of us over the next handful of years and beyond. So, that feels good.

In terms of rooftop solar, certainly customers are open to rooftop solar at any time, and I think we've got legislation that limits how much can be highly subsidized and there is always a continuing debate as to how much rooftop solar should be subsidized. Now what I will also say that we're offering solar products to our residential customers, and as I mentioned, we are over 50,000 -- I think we are around 55,000 customers signed up already and we are signing up customers every week because the cost of utility scale solar is about a third of the cost of rooftop solar and you don't have to drill thousands of holes in your roof.

So, i.e., it seems to be a desirable product that we're offering. So not only is it -- customers can do it if they like and they can do as much of it as they like but without subsidy and we can also offer them an alternative. But it is a continuing debate.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great, thank you. That's helpful. And my follow-up is, forgive me, I'm going to ask about the IRP even though it's still months away. So my question is almost more philosophical. To whatever degree generation CapEx might exceed what's in the current plan for the next few years, would you scale down spending in other categories like distribution in light of either affordability concerns or balance sheet pressures, or would that just be upside?

A - Jerry Norcia {BIO 15233490 <GO>}

We obviously -- in order to inject more capital into the plan, we have to find ways to create room for it from an affordability perspective. Overall, we've got very large inventories of capital that we could deploy in the distribution side and certainly even on the generation side, as we start to build out our renewables portfolio first and then eventually build baseload plans to support the retirement of large coal infrastructure.

The limiting factor for us is always affordability. So as we introduce more capital into the plan, we have to find ways to offset it with affordability initiatives. And some of those affordability initiatives are enabled by our renewables investment. So for example, this year we filed for the first time in my memory a reduction in O&M expense on an absolute basis in our rate case; because of the conversion from coal to gas and to renewables the operating expense is much lower. And so, there is an offset that our capital programs do create but our capital programs also do create pressure. So long way of saying is that we will manage affordability and we will drive distinctive growth for our investors.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you. That's very helpful.

Operator

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

Q - Ryan Levine {BIO 19520640 <GO>}

Thank you for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Hi Ryan.

Q - Ryan Levine {BIO 19520640 <GO>}

What's your current outlook for volumetric trends for residential and industrial customer load for the remaining portion of the year?

A - David Ruud {BIO 16089859 <GO>}

Yeah, we're -- you probably saw our quarter-over-quarter results and residential versus last year was down about a percent and our commercial back up 2% and our industrial was overall pretty flat. So overall, our load was flat versus last year. What we are still seeing is some increased residential usage from what we would have thought where we'd be pre-COVID. We expect that to start coming down -- we are starting to see that come down as more people returning to work. So, we expect that the trend back down, but we are still seeing some upside there. But overall, load is pretty flat according -- or versus last year.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. And then on Energy Trading, just want to make sure I heard this correctly. So, you are saying about 50% of the contribution for the first quarter is (inaudible) and the other half is more volumetric as opposed to later in the year. That kind of puts to you at the high end of the range just from the first quarter contribution. Is there any reason to believe that you won't continue to earn from that segment for the remaining portion of the year, that one puts [ph] you above your range?

A - David Ruud {BIO 16089859 <GO>}

Well, we just -- we like to manage that business really conservatively and have some contingency built in there. So, we tend to do well in the second half of the year as we have some of these things flow. But we just want to remain conservative right now in this area. So, we're not moving our guidance at this point.

Q - Ryan Levine {BIO 19520640 <GO>}

Sure. And what role is -- do green bonds have for the future financing plans for DTE? And what are the drivers of the recent financing decision?

A - David Ruud {BIO 16089859 <GO>}

We see the green bonds supporting our renewable and our green initiatives and gives industrials an -- opportunity bond investors an opportunity to participate in that. So as we continue to grow our renewable portfolio, we expect to have more of that and be able to utilize more of that in the future to help support that.

Q - Ryan Levine {BIO 19520640 <GO>}

Is there any contingencies around certain renewable generation content within your portfolio?

A - David Ruud {BIO 16089859 <GO>}

These go into specific projects and assets, and so there -- they have to be -- they have to go towards those assets that they work. So, it's not to the overall portfolio, but they're aimed at particular renewable assets.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay, appreciate it. Thank you.

Operator

Your next question is from the line of Michael Sullivan with Wolfe Research. Your line is open.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey, everyone, good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, good morning, Michael.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey, Jerry, just wanted to follow up quick on the sales commentary there. In Q1 -- maybe just for Dave actually. It looked like industrial actually ticked down a little bit, whereas the recent trend has been kind of upwards. So is that just like a one-quarter thing or any additional color around that?

A - David Ruud {BIO 16089859 <GO>}

Yeah, it's more of a quarter thing. It's because of the chip shortages that we are seeing across the -- across some of the items in some of the areas that we just had a -- have a dip there. I don't think it's -- it's not a long-term -- there is not been any additional shutdowns or closing. It's just the chip shortage for the manufacturing sector.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay, great. That makes a lot of sense. And then, I also just wanted to clarify on the DLC [ph] impact on solar, maybe you could just give me like what the current plan is for solar additions, like I think you said you're all good on 2022 but on solar, are you adding this year and then next year? The 300 megawatts that's impacted, is that all the solar or do you have some additional that is un-impacted, maybe just a little more on that.

A - Jerry Norcia {BIO 15233490 <GO>}

The -- yeah, this year we're good. We're sitting at about 500 megawatts built for our voluntary program through this year, and our next year we're planning to build about 300 megawatts that we would build and then 200 megawatts we would expect them TPAs [ph]. So, right now our vendors or tell us they're going to furnish but with the DLC, we're thinking in the worst case that it gets pushed a year into 2024 and certainly we can manage that in our plan for next year. And if it was pushed beyond 2024, which we highly doubt, but then we have started to think about what other contingencies we could pull in terms of capital deployments. We've got, as you know, a deep pool of potential investments we could bring forward and pull forward. So we are -- that's how we're thinking about it right now.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay, great. How much is planned for 2024 as is right now?

A - Jerry Norcia {BIO 15233490 <GO>}

I don't think we've put that out there yet. Dave or Barb, I mean 2,500 megawatts is what we got over 5 years. So, I could give you a feel as to how big the program is over a 5-year period.

Q - Michael Sullivan {BIO 20455557 <GO>}

Awesome. Okay. Thanks, Jerry. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

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

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, good morning Jerry, good morning Dave.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Anthony. How are you?

Q - Anthony Crowdell {BIO 6659246 <GO>}

Good. You guys seem to have a high-class problem, like less than 10% of your business generates all the questions. I guess that's a good thing versus everybody questioning 90% of your business.

A - Jerry Norcia {BIO 15233490 <GO>}

We think we have a high-class company, Anthony, for sure.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Just -- most of my questions are answered. Just a quick one I have. I think a nice data point with the IRP filing with CMS reaching a settlement, you guys have a pending electric case you haven't settled in the new electric rate environment since I think 2006. Is it likely that you settle here or the Company continues on the track of maybe going fully litigated?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we are going to certainly engage all the stakeholders in a potential settlement and because it's a pretty straightforward case, I mean really, we're not asking for more O&M expense, we're actually asking for less, and it's really all about infrastructure, that's very necessary for the state, primarily pointing that our electric grid and also the continued transformation of our generation fleet, so pretty straightforward case.

Our strategy is that we'd like to settle. We'll know more in the middle of May, Anthony, when we see the staff filings and intervener filings and then we'll engage and try to close it out before the end of the summer, if we can.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great.

A - Jerry Norcia {BIO 15233490 <GO>}

But whether we settle or litigate, we've had very, very constructive outcomes as you've seen in the State of Michigan.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And I guess just lastly on I think your potential IRP with maybe one difference between yours and the other IRP is I think your plan also includes new generation being built. And as you did mentioned earlier, the state is maybe running tightening capacity. Do you think that maybe draws any additional scrutiny or just the capacity needs of the state are really outweighing -- more dispatchable need for generation really outweighs anything else?

A - Jerry Norcia {BIO 15233490 <GO>}

Certainly, we have a very pragmatic commission and administration and there is an understanding that, okay, we want to decarbonize the economy but we have to do it in a way that still makes sure the lights come on and that our industrial base continues to function properly and reliably and that it's affordable. So, we will file for new baseload generation assets in the IRP, I expect to do so just because we've got over 3,000 megawatts down at Monroe that will come offline over a period of time and we have to have dispatchable generation in that part of our system in order to make the system work, to make the grid work.

And I think that's understood. I think there are people -- there will be people that won't like that, but there are people that will love the fact that we're going to build 5,000 megawatts to 7000 megawatts of renewables. So, it is a balanced portfolio and that will achieve all of the objectives, reliability and decarbonization and affordability.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great, thanks for taking my question. I really appreciate it. Congratulations on the quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Anthony.

Operator

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

Q - Travis Miller {BIO 15260606 <GO>}

Good morning, everyone. Thank you.

A - David Ruud {BIO 16089859 <GO>}

Hey, Travis...

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Travis Miller {BIO 15260606 <GO>}

You answered most of my questions. In particular had a question about the customer bill affordability. Just to follow-up a little bit on that, what about in the rate case, are there any levers that you can pull or adjustments you could make, perhaps earnings neutral adjustments, in the rate case that would mitigate some of the potential customer bill impact, either later this year and next year?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, you want to take that?

A - David Ruud {BIO 16089859 <GO>}

Yeah, I think what we do focus on to mitigate the customer bill impact is really focusing on our own O&M and what we can flow through there. So, we continue to focus on our continuous improvement efforts, our productive -- productivity and efficiency improvement and playing that through. I think as far as individual things within the rate case, I think where we are in the active filing there. So I think I'll that's probably already in there.

But for future affordability, that's really where our focus, is ensuring that we have the best cost structure that can allowed capital focused investment that -- the customer focused investment we need to do for the liability and clean generation.

A - Jerry Norcia {BIO 15233490 <GO>}

(multiple speakers) Travis, in addition to that we've stayed out of a rate case for 2.5 years by being really creative. And we did that intentionally because of the pressure our customers were under during COVID. And I think -- so we've got creative in the past and, as Dave said, we will be creative in the future, and I think our continuous improvement culture also continues to find unique and creative ways to keep driving our cost structure down. And so, we expect more of that, plus our capital investments are pointed in many instances at structurally removing cost to operate our system.

Q - Travis Miller {BIO 15260606 <GO>}

Sure. Okay, great, thanks. And then just real quick, any updates in terms of electric vehicle initiatives or anything this quarter or rather last quarter that's worth mentioning?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we can --yeah, we continue to deploy our electrification program where we've -- that we're in our second tranche of $14 million. We had $14 million of investment approved in the past and now we're in the middle of the next $14 million. And I can tell you this that the number of EVs connecting to our system is going up. We're seeing that well north of 500 EV attachments -- actually, I go that wrong, about a 1,000 attachments a month. So, it's a good program and it's moving forward. And that's up from a couple of 100 just a couple of years ago. So, we're seeing significant growth. It's still pretty small, pretty modest. It's not going to move the needle just yet, but there is a ramp.

And I was talking to some of the senior people at Ford Motor Company and General Motors, I mean their factories get huge backlogs for EV orders and they're trying to figure out how they're going to build all this -- build for all this demand. So, tremendous demand, so we expect the pattern of significant growth to continue over the next several years.

Q - Travis Miller {BIO 15260606 <GO>}

Great, thanks so much. That's all I had.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Jerry Norcia.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Brent, and thank you all for joining us today. I'll just close up by saying that DTE had a very successful first quarter and we're feeling really good about the remainder of 2022 as well as our position for future years. Everyone, have a great morning. And we look forward to seeing many of you at AGA in a few weeks. Have a good day.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.