Q1 2017 Earnings Call

Company Participants

- Barbara Tuckfield, Director - Investor Relations
- Gerard M. Anderson, Chairman & Chief Executive Officer
- Jerry Norcia, President & Chief Operating Officer
- Peter B. Oleksiak, Chief Financial Officer & Senior Vice President

Other Participants

- Andrew Stuart Levi, Analyst, Avon Capital Advisors LLC
- Anthony C. Crowdell, Analyst, Jefferies LLC
- Greg Gordon, Analyst, Evercore Group LLC
- Gregg Orrill, Analyst, Barclays Capital, Inc.
- Jonathan Philip Arnold, Analyst, Deutsche Bank Securities, Inc.
- Julien Dumoulin-Smith, Analyst, UBS Securities LLC
- Leslie Best Rich, Analyst, JPMorgan Investment Management, Inc.
- Michael Weinstein, Analyst, Credit Suisse Securities (USA) LLC
- Paul Patterson, Analyst, Glenrock Associates LLC
- Paul T. Ridzon, Analyst, KeyBanc Capital Markets, Inc.
- Shahriar Pourreza, Analyst, Guggenheim Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good day everyone, and welcome to the DTE Energy 2017 Q1 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Kim, and good morning, everyone. Before we get started, I would like to remind everyone 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 net income to operating earnings provided in the appendix of today's presentation.

With us today are Gerry Anderson, Chairman and CEO; Jerry Norcia, President and COO; Peter Oleksiak, Senior Vice President and CFO. And we also have members of the management team to call on during the Q&A session.

And now, I'll turn it over to Gerry.

Gerard M. Anderson {BIO 1391607 <GO>}

Well, thank you, Barb, and good morning, everybody. Thanks for joining us on the call. So I'm going to start this morning by giving you a recap of our performance in the first quarter, including some updates on a couple of key developments at the company. And then I will hand it over to Jerry Norcia, who will provide a more in depth look at some of our growth opportunities. And then Peter will run through the financials, wrap things up and then we'll move into Q&A.

So, moving on to slide 5, if you had told me back in January that we would face the largest most damaging windstorm in our company's history in the first quarter and that we would also face the third warmest winter in our company's history, with both January and February, two standard deviations warmer than normal in Michigan; I would have considered the odds of us being right on track with our earnings to be very low, but that, in fact, is where we are. We are right on track to delivery on our earnings per share guidance. One quarter into the year, we are off to a very good and strong financial start.

Now, you may ask how does that happen? I know I found myself asking that. I'll give you two explanations and both of them are accurate. So, the first explanation is that while our utilities were impacted by the storm and the warm weather, other parts of our business portfolio, gas storage and pipelines and power and industrial, for example, both of which were up significantly quarter-over-quarter, and our corporate center, those portions of the company picked up the slack. And when Peter reviews the numbers, you'll see that that in fact is the case.

Second explanation is this. Our leaders and people at DTE have become very good at dealing with the unexpected and this pattern goes all the way back to how we handled the economic crisis, but the pattern has strengthened over time.

And here's a big part of the explanation for that pattern of dealing well with the unexpected. I received our most recent Gallup survey results on Monday. Gallup measures the engagement of our workforce, which is really about where their energy and their focus and their heads are. And Gallup ranked us in the 97th percentile of their database, the top 3% in the world, a highest we've ever been at DTE. So when your leaders and your people come to work with that sort of energy and focus, they tend to surprise you to the upside and that's what happened in the first quarter here at DTE.

I will talk more about the large storm we experienced in a minute. That was a big event for us and our customers. But in other news, we filed an electric rate case last week. So as I've mentioned in the past, we are working our way through a long-term transformation of our utilities to address aging infrastructure. And we will be investing heavily over the next decade to transform our generation fleet and also to modernize our distribution system through automation, redesign and upgrades targeted at improving reliability.

As we do with most things, we're taking a very systematic approach to this slate of investments. We are developing a detailed roadmap that ties our near-term actions and investments to long-term results and we're leveraging both our continuous improvement model and the use of new technologies to drive productivity. And our goals are to make the necessary generation and infrastructure investments, in the process, significantly improving our customers' experience, while simultaneously driving substantial increases in productivity that will be required to maintain customer affordability.

Moving on to our gas storage and pipelines business, or GSP, this business line is off to a very strong start in 2017 and is showing really good year-over-year growth. Not surprisingly, the question we most often get asked about GSP centers on the in-service date for the NEXUS Pipeline. So let me just start with the punch line. The in-service date for NEXUS does not impact our 2017 earnings guidance. It won't affect our 2018 earnings guidance and it has no impact on our long-term 5% to 7% earnings per share growth rate guidance.

In the short run, earnings tied to AFUDC are traded against earnings-tied operations and that tradeoff is not consequential. And in the long run, moving the start date of a pipe a few months is not consequential to long-term earnings either. Now, that said, we will begin construction of this pipe just as soon as FERC reestablishes a quorum and approves its certificate.

And what is consequential is that until the project is approved, a $2 billion shovel-ready infrastructure investment project with all of its attended benefits for the local communities of Ohio and Michigan and Ontario, a project that's a provider of thousands of jobs remains on hold. And as most of you know, the Trump administration has yet to formally nominate new FERC commissioners in order to reestablish the quorum needed to get the project moving.

We understand the three potential candidates have been undergoing a vetting process for the past month or longer. That continues to be confirmed. We anticipate an announcement could come at anytime relative to those candidates, although we have not been advised of a specific date.

We continue to understand that the White House and Senate leaders are in regular discussions about this and we expect those discussions to pick up now that the Senate is back in session again after their recess. And we are still targeting NEXUS to be in service at the end of this year. That being said, where in-service date moved to 2018, as I said earlier, we're only talking about a few months.

So moving on to the Link Pipeline and gathering assets that we acquired late last year, I continue to feel really good about this asset and its addition to our portfolio. We recently renegotiated contract with a key shipper on Link, which was a positive development for us. And we are continuing to have similar really productive conversations about growth opportunities with other shippers. And Jerry Norcia will talk more about those developments in his comments in a few minutes.

In the power and industrial business, I talked about some interesting things happening on the landfill gas front a few months ago on the year-end call. And now, I can tell you that we are moving to purchase two landfill gas projects. We just closed on one of those deals this past

Monday. And the second transaction is in motion and moving through detailed final steps as well.

And as you know, we will be replacing the REF earnings that begin to step down in 2020 with other P&I projects. So these new projects that I just mentioned, combined with the larger-scale onsite energy and combined heat and power project that I also discussed on the year-end call, those projects together will deliver a significant fraction of the earnings needed to achieve the 2020 earnings target for power and industrial. And again, Jerry Norcia will go over these projects in a bit more detail in a few minutes.

So now, I want to move on to slide 6 and give you a little color on the recent windstorm and how we handled that. As I mentioned, this was the largest weather event in our company's history with hurricane-like winds gusting to nearly 70 miles an hour for 12 hours. It's very unusual pattern for Michigan. We usually get a wallow wind that goes through and comes and goes in a relatively short period of time. Because of this sustained wind pattern, we unfortunately had 800,000 of our customers left without power. That's nearly 40% of our electric customer base, which tells you just how significant the windstorm was.

Along with a full contingent of our crews, DTE brought in crews from seven states surrounding us to assist in restoring power. And before I discuss that effort to restore power, I just want to mention how much we appreciate the patience and cooperation of our customers during the restoration period. We know how difficult it is to our customers when they lose power. So, we put all of our energy into restoring that power as quickly as we could. And I have to say, the storm was a great example not only of our employees, but of our customers and the community working together for a common goal.

And along those lines, I'd like to join our Governor, Rick Snyder and our MPSC Chair, Sally Talberg, who in the wake of the storm praised the utility workers for their tireless effort to keep our communities powered and our residents safe, and especially for their work in that storm. I really am proud of our employees, and also the out-of-state crews who helped them, and the round-the-clock work that they did in a really historic event for us.

So throughout the storm, we deployed over 3,000 linemen and support crews. I have to say that our recently installed smart meter technology proved to be invaluable in detecting and tracking outages and helping us to quickly lay out a plan of attack for restoration, big change in improvement. We were able to restore 70% of our customers, 70% of that 800,000 within two days, and nearly all of our customers, 96%, were restored within four days. So, we're really proud of that.

A broad group also pulled together to help those who were most vulnerable. So we worked closely with the United Way, the Red Cross, and with faith-based community in our region to make a whole array of warming centers available, because temperatures began to drop immediately in the wake of the outage.

So, we learned a lot from this event. We'll be better at it the next time we face a similar event. The storm certainly reinforced the need for us to continue to make investments in strengthening our distribution system, to prevent future outages and to improve speed of restoration in another outage of this scale, should it come.

So with that, I'm going to turn things over to Jerry Norcia, who will go over some of the developments in our growth businesses. Jerry, over to you.

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Gerry, and good morning, everybody. Today, I'll be focusing on the non-utility growth businesses, GSP and P&I. I want to give you a brief update on developments with new and existing projects.

We'll begin with an update, what's happening at GSP on slide 8. So, let's start with the Link Lateral & Gathering system we purchased last year. Even though we've owned this asset for less than a year, the market interest has been very positive, and the near-term shipper activity is coming in sooner than we anticipated.

Recently, renegotiated an agreement, as Gerry mentioned, with a key shipper that increases their volumes by more than double, and also lengthens the duration of their contracts on dedicated acreage that is more prolific than originally anticipated. This particular agreement requires an incremental capital investment that was contemplated in our plan. Now, the really great news is that we're seeing this type of favorable producer response on neighboring acreage as well. We will continue to work with other shippers to extend and firm up the contract terms.

For the NEXUS Pipeline, as Gerry mentioned, we're still targeting an in-service date by year-end. If we get a FERC certificate in the second quarter, we feel confident about getting NEXUS in service in 2017. If the certificate drifts deeper into the summer, this project may push into early 2018.

And as you know, we purposely planned a path for the pipe through Northern Ohio where we would have a number of interconnect agreements that can provide an additional load of up to 1.7 Bcf per day and have drop-off points south of Dawn, Ontario. So, we continue to feel really good about the pipe and its dynamics.

Now, moving on to the Millennium Pipeline. Last month, Millennium received a favorable environmental assessment from the FERC for its expansion. Now, this is an important step as we move forward towards completing the additional 0.2 Bcf a day of transportation capacity providing service to New York. This expansion is scheduled to be completed in the second half of 2018.

Another project we want to highlight is a new 14-mile natural gas Lateral Pipeline in Birdsboro, Pennsylvania. The Lateral will connect the combined cycle natural gas plant for the Texas Eastern Pipeline. We expect the pipe to be in service in the second quarter of 2018. And along with the Birdsboro Pipeline, we're in advanced discussions with other counterparties for similar growth opportunities. These were all meaningful steps in continuing to grow our GSP platforms.

So now let me turn to our P&I business on slide nine. At P&I, we've been talking about strategic opportunities recently. As Gerry mentioned, we have two new landfill gas projects, and a project that includes the construction of combined heat and power plant. First project is an acquisition of an operating landfill gas plant, which we just closed on earlier this week.

Second project is in advanced stage development landfill gas project that includes construction of a new plant. All of the permitting and right-of-way is complete and we expect to be operational on the first half of 2018. Both sites have existing contracts and we use technology and equipment similar to our other landfill gas facilities. So these are really great fit for us, especially considering the extensive experience our P&I group has in the landfill gas recovery with 19 operating sites in eight states.

We believe these new acquisitions are a sign of future opportunities, and are looking at additional opportunities similar to the two just announced. In addition, we have a combined heat and power plant project we're working on and feel really good about. We participated in the selection process and we were the selected party. We still have details to work through, but are expecting approval in the middle of this year and should be able to announce something later this year.

These landfill gas project when combined with the CHP project will fill around one-thirds of the new projects needed at P&I to achieve the 2021 earnings target. We'll update you as these projects progress.

And now, I'll turn it over to Peter who will provide a financial update for the quarter.

Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks, Jerry. And good morning to everyone on the call. I'm going to start on slide 11. This slide shows our quarter-over-quarter operating earnings by segment. As Gerry mentioned up-front, DTE is off to a great start, just like my Detroit Tigers who are currently in first place and has scored 32 runs in the last two games.

Operating earnings for the first quarter were $1.79 per share. For reference, our reported earnings were $2.23 per share. And for a detailed breakdown of EPS by segment including a reconciliation to GAAP reported earnings, please refer to the slide 23 of the appendix.

Now, let's touch on each segment in details starting at the top with our electric utility. DTE Electric's earnings were $106 million for the quarter, down $21 million compared to the first quarter of last year. The lower earnings were mainly driven by significant weather events that affected the electric utility, and as Gerry mentioned this quarter, we experienced the largest wind storm in our company's history. And this was the third warmest first quarter on record, warmer than the first quarter of last year.

O&M expenses were higher related to planned outage projects in addition to some timing that we expect to reverse as we move through the year. This is partially offset by the implementation of new rates last August. A further breakdown of DTE Electric's quarter-over-quarter results can be found in the appendix on slide 15.

Moving down to DTE Gas, earnings were $107 million, up $20 million quarter-over-quarter primarily driven by the new rates implemented last November which were offset by the warmer weather. Keep in mind, as well that the infrastructure recovery mechanism surcharge was rolled into base rates in our recent rate case.

This will drive some variability in the revenue timings due to moving from a consistent monthly surcharge to a volume-based recognition of these rates. Meaning, for 2017, revenue will be higher in the first and fourth quarters and lower in the second and third quarters due to this timing.

Gas storage and pipelines earnings were $45 million for the quarter, up $15 million over last year due to the higher pipeline and gathering earnings and some timing of expenses. We expect the timing favorability reverse through the balance of the year and this timing was roughly $5 million.

Moving down the slide, earnings at power and industrial projects were $30 million for the quarter, up $9 million from the first quarter of last year. This increase was primarily driven by higher REF volumes and fuel-related earnings which were offset by lower renewable earnings. Our power and industrial segment is still on track to meet its earnings guidance for the year.

Moving down to earnings for the Corporate and Other, there were $16 million for the quarter, $23 million favorable to last year due to a third quarter 2016 accounting, as well as timing of taxes. The accounting change was around $13 million for this quarter and related to simplifying GAAP accounting for taxes on stock-based compensation.

The timing of taxes, this favorability will reverse through the balance of the year. Earnings for our growth segments for the first quarter were $304 million, or $1.70 per share compared $258 million, or $1.43 per share last year.

To round out our operating earnings, we include the results of our energy trading segment, and they were off to another strong start. The first quarter operating earnings were $18 million, up $2 million from the first quarter last year, and we have our typical reconciliation of operating to accounting in the appendix on slide 22.

Their economic contribution was $19 million for the quarter, and on track to achieve the annual economic earnings of $20 million to $25 million. Remember there was seasonality in this business, and we typically waited until later in the year to assess the trading company's accounting incomes contribution before we update guidance.

Now, I'll wrap it up on slide 12, and then open it up – the line for questions. Once again, we had a strong first quarter. Even with the record weather event and good amount of unfavorable weather, I'm confident that we'll achieve our 2017 operating EPS guidance of $5.15 to $5.46 per share.

Our utility investment approach remains focused on improving reliability and the customer's experience while maintaining affordability. The strength of our utilities and the growth at our non-utility businesses gives me confidence that we'll continue to deliver premium shareholder returns.

With that, I'd like to thank everyone for joining this morning. So, Kim, you can open up the line for questions.

Q&A

Operator

Thank you. Our first question is from Paul Ridzon from KeyBanc.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning, Paul.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Good morning. Good morning. Could you give a little more detail about the accounting change and how that will flow through the rest of the year? And I noticed you didn't change your corporate guidance. Was that kind of change contemplated when you gave that guidance originally?

A - Gerard M. Anderson {BIO 1391607 <GO>}

So, I'll turn to Peter. And then he mentioned two items. One was some tax where there's timing and the other was an accounting change, where that change will be a permanent add to earnings. But Peter, why don't you.

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

Yeah. Paul, the accounting changes, the accounting standard (22:07) third quarter last year we're really seeing the impact of it this quarter as the interchange related to the full recognition of tax benefits relates to stock-based compensation. In the past, this was split between income statement and the balance sheet. Now you're seeing the full amount in the income statement.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Did that answer the question for you, Paul?

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Yes. It did. Thank you very much.

A - Gerard M. Anderson {BIO 1391607 <GO>}

You bet.

Operator

And moving on, we'll hear from Julien Dumoulin-Smith from UBS.

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

Hi. Good morning.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning...

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

Good morning.

A - Gerard M. Anderson {BIO 1391607 <GO>}

... Julien.

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

Excellent. So couple of questions here. First, let's start with the utility side. Obviously, with the electric case here. I wanted to follow up on any potential expansion of distribution opportunities. I know you all, the commission has been discussing it for a little bit, potentially enhancing some of the distribution reliability metrics. Can you talk about that little bit? I know, Sally has talked to it a little bit on the MPSC side.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I'm in a little trouble hearing you, but I think you're asking about our distribution investments and enhancing our distribution metrics through those investments. So I would say, if there's any area that we're strategically focused on here at the company, in terms of investment right now, it's probably that. We have the opportunity, I think, to strengthen the system, automate the system and harden the system in a way that really will improve our ability to withstand events like the one we just experienced and to generally improve our customer reliability experience.

But we've learned from other companies who've gone through this cycle that there is some very significant productivity improvements that come with this. So, we're spending a lot of time working our way through the agenda. We're talking about it actively, and as you suggested, with the Public Service Commission. So I think they understand the priority and the state of replacing infrastructure. And so I expect it to be a collaborative process.

And that's paired up, as you know, with a generation investment agenda that I think is pretty well defined at this point. So with the generation agenda defined, we're really now diving into exactly the question you raised. But let me know, Julien, is that answer what you were looking for?

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

I'm just being curious, is there any kind of follow-up that is anticipated with the commission through the course of the year vis-à-vis your distribution in the CapEx and any expansion of it? I just wanted to clarify that more than anything.

A - Gerard M. Anderson {BIO 1391607 <GO>}

All right. Jerry Norcia is been here for those discussions. I'll hand that to him.

A - Jerry Norcia {BIO 15233490 <GO>}

Julien, there is follow up in our last rate order, the Commission asked us to file a five-year plan for our distribution business. And so what we're doing right now is working with the Commission staff prior to that filing, and exchanging our thoughts with them. And so in the fall, we will file a formal five-year plan, and that will start to eliminate what some of our detailed plans are. And I think the Commission wanted this, because we will be in regular rate cases, and they want to, to the best of their ability, to be supportive of our agenda with our distribution business.

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

Yeah. Outside of improving reliability overall, is there anything specific that this five-year plan will be addressing? Just a little bit of color ahead of time if you have any sense yet?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, it will certainly look at the capital plans that will be required, right? So, I think there'll be financial descriptions of what we're trying to accomplish. But I think what you'll see is, what Gerry mentioned, I think you'll see tree trimming be a big part of the agenda. I think you'll see automation and sensing devices at our substations as well as on our circuits. And I think you'll see modernization of wires that are old, poles that are old, substations, breakers, transformers, all of that will be described.

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

Got it. Excellent. And then turning to the other side of the business here on the midstream side. Obviously, you articulated some pretty robust targets last year when you did your latest acquisition. How do the latest expansions that you just discussed reconcile with the ongoing kind of growth in the – sort of through the 2020 period, you originally articulated UG (26:32) how are you tracking relative to that growth plan?

A - Gerard M. Anderson {BIO 1391607 <GO>}

So, the start is ahead of our pro forma. That's always a good thing. But we did, as you mentioned, in our long-term plan, had a significant step-up in our earnings related to this acquisition and I would look at what we've seen early on here as a contribution to those long-term earnings, although the contributions come faster than our pro forma had suggested.

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

Got it. So, on plan to be clear?

A - Gerard M. Anderson {BIO 1391607 <GO>}

On long-term plan, ahead of short-term plan, right. That's the way I would look at it.

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

Got it. Excellent. Thank you, gentlemen.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And our next question is from Jonathan Arnold from Deutsche Bank.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Hi. Good morning, guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Gerry, just on the CHP project, the one that's now on slide 9. I just want to clarify, is that the same one you talked about last quarter or a different one?

A - Gerard M. Anderson {BIO 1391607 <GO>}

No, that's the same one we mentioned on the year-end call, and it's both a CHP project and a significant onsite energy project combined with it. And yes, that's the same one, continues to move its way through engineering detail and board approvals on both sides. So as soon as we've got specific approval to move ahead, we will fill you all in.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

And what are you – how has it progressed since February, I guess? Has it moved forward or is it sort of still at the same stage?

A - Jerry Norcia {BIO 15233490 <GO>}

It has moved forward. We are in what I would call detailed contract negotiations, and both parties expect to take this to their boards before the end of the second quarter.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Actually, we've done that and the other side has got a board meeting scheduled. So, we expect it to go in their second quarter meeting. Yeah, the stage we're in now is detailed engineering work.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Great.

A - Gerard M. Anderson {BIO 1391607 <GO>}

And we're expecting it to progress.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

And if I remember correctly, I think you said last call that you'd need maybe three projects of that type of scale in order to hit your targets and then you have some other smaller things filling in around the edges. So, I was curious, is that still sort of the right way to think about this? Or do the landfill deals change the big picture at all?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I think that it's still the right way to think about it. We do think there will be more of these landfill deals coming, and we're working on a host of them. So, there'd probably be a part of the picture that's going to be that filled in. But yeah, I think the description we gave back on the year-end call is still accurate.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

And anything to report on landing the other two sort of big ones?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Do you want to take that one, Jerry?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah.

A - Gerard M. Anderson {BIO 1391607 <GO>}

We continue to work a portfolio. But let me give it to Jerry, who's close to that business.

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. I think the second one will come here shortly. I think we're in the process of finalizing that deal. And we're also looking at a slate of other projects that we're in discussions with parties, but not as advanced.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. Great. Thank you. And then, just if I may on the – you gave the update on Link. Do you have a contract percentage update that you can share or an NBC component or anything like that?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. So, we're up a bit. We have talked about the 80%. We're up a bit versus that. This moved us north a bit.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Great. Thank you, Gerry.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

We'll go next to Gregg Orrill from Barclays.

Q - Gregg Orrill {BIO 1532939 <GO>}

Yes. Thank you. Is it possible to quantify the impact of the storms at DTE Electric that you experienced in the quarter?

A - Jerry Norcia {BIO 15233490 <GO>}

When you look at it from a quarter-over-quarter, it's approximately $20 million after tax of storm expense.

Q - Gregg Orrill {BIO 1532939 <GO>}

Thank you.

Operator

And we have a question from Anthony Crowdell from Jefferies.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Hey. Good morning. Peter, we're not up to baseball yet. We still have hockey going on this city.

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

(31:17) in 25 years so.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

And Jerry Norcia, I'm assuming you're a Leafs' fan. You guys put up a great fight there.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I grew up in Windsor. So I am a Red Wings fan and have been forever. But I am watching our old coach, Babcock, real closely over there. He's done a heck of a job.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

He has. Moving us even more exciting on DTE Electric, just on, just kind of familiarize myself with the Michigan proceedings. Are there designated settlement windows during the case and what parties do you need kind of to get a settlement there?

A - Gerard M. Anderson {BIO 1391607 <GO>}

You're talking in our electric case?

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Yes. Please.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. There aren't designated windows. We've sometimes attempted settlements, but the general course in electric cases is, they've simply run their course. And unless, we're surprised, that's what we'd expect here. We think it will be a pretty straightforward case tied to investments and infrastructure and so that would be our expectation. It's the, by the way, the last case that we'll play out under the former construct of 12 months with a six month self-implementation. So we would be expecting we'll self implement six months into the case.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Great. And on NEXUS, you had said that, I guess, you're talking about the AFUDC earnings component of the pipeline. Could you quantify what that AFUDC component would be if the pipeline got pushed into the following year? What would be the impact this year?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We typically will not give project-level of income. But I can let you know the AFUDC does kind of approximate the income for the project once it goes in service. That's why there's really not a big material impact 2017, 2018.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And next we'll hear from Greg Gordon from Evercore ISI.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Hey Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Hey, guys. Can you hear me okay?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. We can. Good morning, Greg.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Good morning. Can we go back to the comment you made about the potential increases in productivity associated with accelerating distribution investment because I've been having conversations with a lot of investors about the surge in appetite for distribution spending, not just with you specifically but with a lot of your peers across the country. And a lot of investors are very, very concerned with the affordability sort of quotient of what that means for customer bills.

I think, in the past, you've talked about and tried to quantify the – sort of the net impact on customer bills at least qualitatively from updating your network and putting in new circuits and how that can have a positive impact on costs in ways that mitigate the customer impact. Can you talk a little bit about that, please?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. So, why don't I talk about it? And then Jerry Norcia may have some additional comments because he's working very closely with our team on this whole agenda. So, look, there are companies who've moved in to distribution renewal essentially because they were forced to, because they had a significant sort of life-changing weather event. And they and their commissions got together and said, this isn't going to happen again. We're going to renew, harden, automate and change our distribution system so we don't experience this.

We've been benchmarking a lot of those people. And what you see is that, as you renew and automate your distribution system, a lot of what we spend money on, so tree trimming, reactive maintenance, store maintenance, broke and fix, really goes away. And so you really do – you do have the ability to trade the benefits of a new system, as well as an automated system which allows you to reduce the number of truck rolls and so forth. You're able to trade those.

Now, the exact amounts and timing of that are significant, but we're really working our way through what our agenda is going to look like and the timing of it. And therefore, when we'll be able to realize those benefits. And you said, investors are worried about affordability. Well, I've said repeatedly, if there is one thing that we're focused on at this company, it's affordability. And that's just not a slogan. We really mean it because we know that we've got to work our way through this in a way that works on a price – from a price perspective for our customers. And so, if you make the distribution investments and don't harvest the productivity opportunities that come with it, you really missed it and we're not going to miss it.

So, Jerry, any additional insights you'd have?

A - Jerry Norcia {BIO 15233490 <GO>}

I would just support those thoughts that really what governs our capital agenda in the distribution business is affordability. So we'd lead with our interest of our customers first which is affordability and reliability. And the inventory of distribution investments really does exceed our affordability goals. So, that's how we're building our investment agendas. We're setting an affordability goal along with the set of reliability goals and trying to fit that all together. If we find that our productivity – we're able to accelerate our productivity improvements, then we will have the opportunity to accelerate our investment agenda in the distribution business because the inventory is very large.

A - Gerard M. Anderson {BIO 1391607 <GO>}

So just a little back, I don't think we're ready to come out with specific numbers related to the productivity. Yet, we're still driving end of those. We have a feel for the scale, but the absolute timing and so forth we need to work our way through the timing of the agenda. But as I said, if you go back and trace companies who have done this well and their experience over time, they're real.

A - Jerry Norcia {BIO 15233490 <GO>}

You'll find our cost structures are very, very good once they've gotten through that investment agenda.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Does that answer your question?

Q - Greg Gordon {BIO 1506687 <GO>}

Yeah. I think it's – well, it's a great start. We look forward to seeing more data on this. I think it's – not to beat a dead horse, but it's an issue that where I'm hearing increasing questions about that I don't think a lot of people have good answers on and very hard in numerical sense.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Q - Greg Gordon {BIO 1506687 <GO>}

Thank you, sir.

Operator

Michael Weinstein from Credit Suisse has our next question.

Q - Michael Weinstein {BIO 6584239 <GO>}

Hi, guys. How are you doing?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Fine.

A - Jerry Norcia {BIO 15233490 <GO>}

Good. Thanks.

Q - Michael Weinstein {BIO 6584239 <GO>}

Hey. Good morning. Hey, I was wondering if you could talk about the strategic benefits that NEXUS enjoys over the TransCanada main line, especially in light of their successful open season recently. And how – is there room for three pipes going into this region, or is it going to be a situation where only two win?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. I'll pass it to Jerry Norcia.

A - Jerry Norcia {BIO 15233490 <GO>}

So let me start with two pipes, our pipe NEXUS and Rover. Just for clarity, those pipes connect to our Vector Pipeline which we own with Enbridge. And those two pipes are really displacing existing supply into the Vector Pipeline. We are not expanding the Vector Pipeline into Dawn. So there's been a notion that NEXUS and Rover are going to flood the Dawn market and that's not going to happen because we're going to displace supplies coming in from Chicago which really come from Western Canada. So it's really a displacement, Western Canadian gas.

And it's my expectation that NEXUS will be much more competitive to deliver volumes that are sourced 250 miles away in Pennsylvania and West Virginia than volumes that are sourced from 3,000 miles away in Western Canada. I know that TransCanada has made a proposal to highly discount their rates. I think the prospect of that happening will be determined by regulators both in Ontario, Quebec, as well as the National Energy Board. I think there'll be a lot of discussion around that.

A - Gerard M. Anderson {BIO 1391607 <GO>}

The other thing is that – so, Jerry was clear. We've been asked this question many times on what NEXUS and Rover had been bringing a lot of incremental volume? The answer is no. It's a displacement. So, we've seen the volumes – Western Canadian gas volumes from Chicago all de-contracted as we contracted up Marcellus and Utica volumes from Ohio and geographies nearby. So those two don't bring any incremental.

There's probably some of that dynamic going on with the TransCanada pipeline as well, although we're not inside that one, but they have contracts rolling over as well and so they're trying to manage their portfolio.

And as Jerry said, this will be a complex approval process because there're a lot of shippers and there's question of treating all shippers equally and so forth. So they'll work their way through that, but we don't expect it to be a quick process. So, all that said, I meant what I said at the outset. When we get the FERC approval, shovels go on the ground and we start building. And we're really confident this can be a great addition to our portfolio.

Q - Michael Weinstein {BIO 6584239 <GO>}

Right. So maybe it'll be fair to say that as long as NEXUS comes in service first, which looks like a good possibility, especially if it takes a long time to get mainline approval on their recontracting, then it would be TransCanada's project that would be more at risk, right? Yeah, in terms of – since they would be the last to the party, so to speak.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I think shovels will certainly go on the ground and NEXUS well in advance of TransCanada having that whole picture cleared out. But they're sourcing from different suppliers and they're dealing with their own dynamics on that pipe. So, I'm not going to speak for them or their dynamics. I'd simply say that we have a set of shippers and we have good discussions going on with additional shippers. We got a lot of volume, we think we'll bring from Ohio. We think this is going to be a great pipe to deliver our storage to other markets. NEXUS will be delivered storage from Michigan outbound to other markets. So we really just don't see it contingent on these dynamics on TransCanada. And so, as I said, when we get approval here in the coming weeks, we'll start building.

Q - Michael Weinstein {BIO 6584239 <GO>}

Just one last question on this. Is the remaining one-third that has yet to be firmed up, is that going to be firmed up at short-term contracts as you get closer to completion, and then, eventually termed out to longer term, is that kind of the plan?

A - Jerry Norcia {BIO 15233490 <GO>}

We're working on terminals out long term. There may be some short-term contracts, but primary objective is to get those contracted out. We are working with a handful of parties. I think as we see construction start on this pipe, it's our belief that we'll start to see these conversations firm up into contracts.

Q - Michael Weinstein {BIO 6584239 <GO>}

Okay. Great. Thank you very much.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

Our next question comes from Shar Pourreza from Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey. Good morning, everyone.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Morning, Shar.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So, just – most of my questions were answered. Just if there is some sort of a delay with NEXUS. Can you just remind us if there's any of these interconnection agreements that could expire? Is there any negative impact to those if there's a delay?

A - Gerard M. Anderson {BIO 1391607 <GO>}

No, none of the contracts will be affected, the contracts we have on the pipe. And the interconnection agreements in Ohio, we've signed a deal down in Northern Ohio, but a lot of those are going to play out as the pipe goes into construction. That's just what history shows. Those move when the pipe moves.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. And then – I'm sorry.

A - Gerard M. Anderson {BIO 1391607 <GO>}

No, I'm just going to say that we have been asked, do any of your contracts to customers have options? The answer to that, no. They're all firm and firm for a long time.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. And then, just lastly, it sounds like the sticky point we're getting some of this interconnection agreements to firm has been the fact that you just haven't put a shovel on the ground.

A - Jerry Norcia {BIO 15233490 <GO>}

We've gotten one of those shippers to go firm and go long-term on two of those interconnects, but I think we will see a lot more of that activity go firm once the pipeline starts construction.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Great. That was terrific. Thanks.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And next, we'll hear from Leslie Rich from JPMorgan.

Q - Leslie Best Rich {BIO 2186455 <GO>}

Good morning. I just have a couple timing-related clarifications. So, Peter, I thought you said the accounting charge, the benefit from the accounting change for stock-based options would reverse later this year, or did I mishear that?

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

No, they will not. They're permanent difference.

Q - Leslie Best Rich {BIO 2186455 <GO>}

They're permanent, okay.

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

Yes. It's going to income statement versus the balance sheet.

Q - Leslie Best Rich {BIO 2186455 <GO>}

And then you said something in gas storage and pipeline, you said there was some timing of some expenses that benefited in the first quarter, but that...

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

With the maintenance-related expenses of approximately $5 million after tax.

Q - Leslie Best Rich {BIO 2186455 <GO>}

And then you expect that will flow through later in the year?

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

That is correct.

Q - Leslie Best Rich {BIO 2186455 <GO>}

And then, finally, on the REF earnings and then lower renewable earnings, do you have any further color on what drove that?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. The REF, we saw our capacity factors at some of the plants were up above – really above plan in quarter-over-quarter. And then we had some sort of the same thing, but in reverse on the renewable side, we had some capacity factors that were down a bit there, so there was a trade.

Q - Leslie Best Rich {BIO 2186455 <GO>}

Okay. Great. Thank you.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And moving on, we'll hear from Paul Patterson from Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Great. Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning. Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Most of my questions have been answered, but could just maybe give us a little bit more color as to what you think is holding up the FERC nomination?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, if you could go all the way back to the beginning, there was a lot going on early in the administration, right? So we were hoping that – if you recall the first quarter call, we were hoping they'd move a single candidate. I think they had a right for single candidate, but they chose not to. So, once they got around to getting their arms around the FERC appointment process, they decided to go with a slate, and a couple of the members of the slate didn't have their background checks and clearances, so they've needed to work their way through that process. And that always takes time. You wish you could – you wish and you kind of think it would be done quickly, but it isn't. It just takes weeks to get done.

And then the Senate's been on recess here recently. They just came back. So, we're waiting and the word we get – the word we're getting, we're staying close to this as positive, that they are moving the candidates, the vetting process is happening, that the dialogue in the Senate between Murkowski and Cantwell is active and constructive. McConnell's informed and involved in the dialogue. The dialogue is back and forth with the administration. So, I think the signals are all constructive. It just takes time. It's the way things are moving in Washington right now.

By the way, I think what we're hearing from the Democratic side on this one is that they understand the importance of these projects to jobs and moving the economy along. So, it appears that they'll play a constructive role in the confirmation process as well.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. And then just on the landfill gas, could you give us a flavor – I apologize for it, but just in terms of what the gas production outlook on the average landfill – I mean, maybe – I'm sure it's different from project to project, but how long do these – how does the production of landfill gas – so what's the lifespan of that if you know what I'm saying, or the RP kind of like...

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. They can be very long lived, 30 years or more. So, they go way beyond kind of the typical contract life, and they rise and then have a gradual decline over time. But in a lot of these, they also are continuing to grow in scale. So sometimes you'll see them rise for a couple of decades and then decline.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. Thanks.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

Our next question is from Andy Levi from Avon Capital Advisors.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Hey, guys. How are you doing?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good. Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

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

Good morning, Andy.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Just a kind of follow-up on Leslie's question. So, on the Corporate and Other, just to understand, I guess it's a tax benefit that will stay, is that what you're kind of saying?

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

That is correct.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

If you can quantify that and maybe I missed it. Can you quantify how much that is on an annual basis and how that changes your guidance that you gave in 2017 for Corporate and Other?

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

It's $13 million after tax was the income that pull through (49:19). And the amount is larger than we're contemplating at this point in guidance, but we also will take that in consideration.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

But that's – I'm sorry, is that $13 million an annual number?

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

It would be the annual.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Okay. And that stays, or does that move around based on the stock price?

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

It'll move around a bit. Really, the difference here is the stock price and the date of grant versus the date of issuance. So that three-year window, that price change will flow through. So you may see a little bit of changes through the year, but we issue in the first quarter, so that's where you're going to see basically the majority of the improvement flow through.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Okay. Well, what's the – is there like a standard, like a number for it, or like a FAS, whatever?

A - Gerard M. Anderson {BIO 1391607 <GO>}

(50:18) if that is a standard number. I don't know, there's a standard number. Really, it depends upon how your share price moves from the date of issuance to three years down the road. And so generally, over the past – if you take the past five, six years, our share price has been moving up. This would have been consistently a positive for us.

On the other hand...

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Yeah, it has been moving up.

A - Gerard M. Anderson {BIO 1391607 <GO>}

...up in the other direction, it could be a negative. But as long as we keep performing and share price keeps responding, it generally would be a positive.

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

And this is also something we can ask and predict, so we'll put a part of our financial planning process.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Got it. So then the $64 million – the negative $64 million to negative $60 million for 2017 guidance, we should add $13 million to that? That kind of – that's the new guidance for Corporate and Other?

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

It's some contemplated in the original guidance. This is higher than we are anticipating, given the stock price movement.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Got it. Okay.

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

We'll update overall guidance later in the year.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Okay. And then the second question I have is just on the P&I, the landfill gas, the two investments there. Can you – I didn't see it anywhere, but that doesn't mean that it's not there.

How much the new investment is on a dollar amount and what type of returns are you – should we assume on that?

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

Yeah. I think that's something right now since we're in deep discussions with our counterparties. We're not going to disclose at this point in time.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Okay.

A - Gerard M. Anderson {BIO 1391607 <GO>}

We always face this when we've got multiple negotiations with counterparties on similar projects that we don't want to get into investment amounts of returns because parties are always trying to do cross tabs between their discussion with you and other projects you're doing. So I don't mean to be opaque, but it doesn't service when we're having these sorts of negotiations.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

No, no, I apologize. I had in my head that they were done deals, but, okay. So, once they are done, we'll get more details on them, I guess.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. We can update you on what the segment looks like as we get more of these sort of played through.

Q - Andrew Stuart Levi {BIO 17596378 <GO>}

Okay. Thank you, guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

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

Thank you.

Operator

Next, we'll hear from Kevin Fallon from Citadel.

Hey, you guys. How are you?

A - Jerry Norcia {BIO 15233490 <GO>}

Good. Thank you.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning, Kevin.

Q - Operator

Just a question – to follow on Andy and the P&I contribution. You said it's supposed to be about a third of the roll off in 2021. I think the last time you guys put out a slide, you showed like a $30 million whitespace box. Is that the rough magnitude that you guys are aiming for, is that the right connection?

A - Gerard M. Anderson {BIO 1391607 <GO>}

So, we did communicate a $30 million roll-off. And if you look at our plans, we also have a $10 million growth over this period. So we're looking for – it'd really be about a third of the $40 million number, a little more than a third is what these projects would contribute to that $40 million.

Q - Operator

Okay. That's helpful. And then, in terms of NEXUS, the filings they've made at FERC, I think they were looking for a 60% equity ratio and a 14% ROE. Is that what you guys are booking AFUDC on and is that the right contribution in terms of a run rate for 2018 and 2019?

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

AFUDC does approximate the operating income for the pipeline.

Q - Operator

So, you guys are – it's the 14% and a 60% equity ratio?

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

Yes.

Q - Operator

Okay.

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

And when you look at the AFUDC, it's a pretty standard calculation as you go through and what you're seeing is approximately there.

Q - Operator

Okay. All right. That's helpful. Thank you very much.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And we have follow-up question from Paul Ridzon from KeyBanc.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

As you initiate these productivity initiatives, do you think it's going to be meaningful enough to change your rate case cadence?

A - Gerard M. Anderson {BIO 1391607 <GO>}

I think we'll still be in regular rate cases, but it has to change the amount, right? So, companies that are going through fundamental infrastructure renewal without driving productivity are going to be some big asks. And our goal, we're going to still need to be in rate cases, but we just need to moderate the size of the ask and that's our goal.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Thank you.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And that's all the time we have for questions today. Speakers, I'll turn the conference back to you for additional or closing remarks.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I want to thank you all for joining us this morning. And I'd just reiterate what I said at the beginning of the call. One quarter in, I feel really good about the way things are progressing so far this year, not only on this year's earnings but on a number of the projects and investments related to future growth. So we look forward to providing you updates as we move our way through the year. Thanks again for joining us.

Operator

And that does conclude our conference today. Thank you for your participation. You may now disconnect.