

Q3 2017 Earnings Call

Company Participants

- Barbara Tuckfield, Director of Investor Relations
- David Slater, President
- Peter Oleksiak, Senior Vice President and Chief Financial Officer
- Unidentified Speaker

Other Participants

- Andrew Levi, Analyst, Avon Capital Advisors
- Charles Fishman, Analyst, Morningstar
- Greg Gordon, Analyst, Evercore ISI
- Jonathan Arnold, Analyst, Deutsche Bank
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Kevin Fallon, Analyst, Citadel, LLC
- Michael Weinstein, Analyst, Credit Suisse
- Paul Patterson, Analyst, Glenrock Associates
- Paul Ridzon, Analyst, KeyBanc Capital Markets
- Shahriar Pourreza, Analyst, Guggenheim Securities, LLC,

Presentation

Operator

Good day everyone and welcome to the DTE Energy Third Quarter Earnings Call. Today's conference is being recorded. For opening remarks, I'll turn the call over to Barbara Tuckfield. Barbara, please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Debbie, 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 this morning is Peter Oleksiak, Senior Vice President and CFO. We also have members of the management team to call on during the Q&A.

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

Peter Oleksiak {BIO 7535829 <GO>}

Thanks Barb and good morning to everyone. And thank you for joining us today. Of course no DTE earnings call would be complete without an update on my Detroit Tigers, and since I'm lined solo [ph] here today I'm going to start with that. I'm disappointed to say that for the second straight year, the Tigers did not make the post-season and traded away most of the veteran players. And Justin Verlander is pitching tonight in the World Series, so I wish him luck. The good news is that for the Tigers we did get the number 1 pick for 2018 season. So every ending has a new beginning. As always I look forward to a better season next year.

Now on to the update on DTE, like last year, we are keeping today's call focus on the quarter, and our attention on the current year. The longer-term strategy and growth related questions will be deferred to the EEI Conference, which is only a couple of weeks away. And at EEI, Gerry Anderson will providing our detailed business update. This update will include our 2018 early outlook, our long-term growth plans as well as details about each of our business segment.

Now I'd like to start on slide 3. Given our continued strong year-to-date results, we are increasing the guidance midpoint by \$0.12, to a range of \$5.38 to \$5.69 from a range of 5.26 to 5.57. The guidance increase is driven by our Gas Storage and Pipeline, and Power and Industrial Segment which I'll discuss in more details in a few minutes.

Before I get into the financials, I want to shift to another area where we are seeing great results, which is residential customer satisfaction. I'm particularly pleased to announce that we ranked second in the Residential Customer Satisfaction in the Midwest at both DTE Electric and DTE Gas. Moving on to update on our non-utility businesses, since our last earnings call, our Gas Storage and Pipeline business received FERC approval for both Nexus and the CPV Lateral project, Valley Lateral Projects.

And we are targeting 2018 as service for both, we also had great news at our Power and Industrial projects businesses. The agreement on the industrial energy services project we disclosed in the last earnings call was finalized. And I can tell you now that the project is part of Ford Motor Company campus upgrade, powering Ford new -- Ford's new research and engineering center, DTE will own and operate the new state-of-the-art Energy Center using modern efficient and green energy. This facility is expected to begin operations in late 2019. We also have a great pipeline of projects in development, to follow the ones we've announced this year, and we'll continue to update you as they progress. At EEI we will give you a more detailed description of the types of investments we are targeting.

Now I like to go over the third quarter earnings results on slide 4. For the quarter DTE Energy's operating earnings were \$264 million or \$1.48 per share. For reference our reported earnings were and \$1.51 per share. And you can find the reconciliation of the third quarter reported to operating earnings in the appendix. For the quarter our growth segments operating earnings were 274 million or \$1.53 per share. Electric segment was lower by 63 million quarter-over-quarter. This quarter was considerably cooler than 2016, which was one of the warmest on record, and drove much of the unfavorability. DTE Gas is lower by 9 million quarter-over-quarter. This is primarily driven by the timing of the gas main renewal revenue and higher O&M expenses.

As I mentioned on previous calls, with more of the gas main renewal revenue base rates, revenue was expected to be proportionately lower in the second, and third quarters and higher in first and fourth quarter. It will not affect the full year earnings. For the Gas Storage and Pipeline segment third quarter earnings were higher by 8 million versus last year. This favorability was driven by the Link acquisition and higher pipeline and gathering earnings. And Power and Industrial Projects segment was higher by 9 million quarter-over-quarter. This is due primarily to higher REF volumes at new sites coming online late 2016. And I'll talk more about this favorability when I discuss the guidance increases.

Our Corporate and Other segment earnings were 14 million unfavorable versus last year. This variance was mainly due to the timing of taxes between the two years. Again overall growth segment results for the quarter were 274 million or \$1.53 per share. Energy Trading lost 10 million operating earnings and 3 million of -- in economic net income for the quarter. Trading is having a solid year and is on track to achieve its economic contribution target. And please refer to the appendix to review the Energy Trading standard reconciliation slide, which shows both economic and operating income performance. Overall, we had a strong quarter.

I move on now to slide five, to discuss how this strength plays out in our full year guidance. As I mentioned at the start of the call, our EPS guidance range for DTE Energy is now 5.38 to 5.69, up from a range of \$5.26 to \$5.57. We are increasing the midpoint of the 2017 EPS guidance by \$0.12 from \$5.42 per share to \$5.54 per share based on the continued strength at our non-utility segment. For our GSP segment we are seeing favorable results with the Link acquisition and Pipeline and Gathering earnings. At P&I, we are able to capture additional value through the REF business with two new high production sites. Longer-term a 5% to 7% growth rate continues, growing up our original 2017 guidance, which weather normalizes our utilities and also normalizes the favorability of P&I from our REF facilities.

Before I get into nuances of the earnings guidance change for our P&I segment, like to take a step back and discuss the overall value creation for the REF projects, just to set the context. As you recall, the REF project, they are facilities that mix additives with coal to produce fuel that reduces emissions from the coal-fired power plants. The REF projects included tax credit incentives that can be generated over a defined 10 year life. The initial process came online at the end of 2009 and when Congress extended the refined coal tax credit program, a second tranche of projects were developed and brought online at the end of 2011. Since that time we saw ways to increase the value of the projects by entering into strategic transactions with utility and investor partners. These transactions are completed to increase REF production, optimize cash flow, and minimize operating risk.

The timing of entering these transactions changes our earnings and cash profile. Tax credits generated are recognized immediately as earnings, when then can be utilized in the future to reduce federal income taxes. When transactions with investor partners are completed, they receive their earned portion of the projected tax credit allocation, which for us increases our near-term cash flow while decreasing earnings.

Now let's move back to 2017 guidance update for the P&I segment where we see some of this impact playing out. We've seen this guidance changes increase tied to additional REF projects we developed last year with (inaudible) both their relocation and acquisition, they are generating earnings for us and our shareholders. We are now in the process of looking for

investment partners. We've done this already with many of our existing units, and when these partnerships are executed, they will be value and cash accretive to the enterprise, and will reduce earnings. Until we find partners we realize higher earnings near term on these projects. Finally these investment partners maximize the NPV of these assets.

The exact timing of when we enter these partnerships is driven by a combination of two things, one is have the units run for a period of time to maximize performance, and also is finding the optimal partners to maximize cash value. Over the remaining life of the projects, we will continue to maximize value of the REF business line. The potential relocation to higher units -- of our units to higher volume sites or the acquisition of additional third party units, where we can create value. This has [ph] and will continue to deliver significant earnings and cash benefits to our bottom line.

Now let's move to slide six and discuss cash and capital guidance. In addition to the dollar earnings results our cash flow and balance sheet remain strong and continue to support our long-term growth plan. Based on the year-to-date results, we are upping [ph] our cash flow and capital expenditure guidance with the change related to capital. Taking a closer look at the capital expenditures on the right side of the page, we show the capital expenditures by business unit. We still expect to invest nearly \$2 billion at our utilities this year. This includes a 1.5 billion at DTE Electric, driven by investments in our distribution system, and 400 million in DTE Gas driven by investments in base infrastructure and main renewal.

Now with the capital investment that's occurred over the past few years at DTE Gas we are likely to file a rate case by the end of this year. We've decreased our non-utility capital guidance by 500 million. This is for the retiming of the construction of the next project. And as I mentioned earlier, we are targeting a third quarter 2018 Nexus in service date. This brings our total capital expenditure to approximately 2.5 billion for the year.

Now I'd to wrap up on slide 7, then we can open the line for questions. We had another successful quarter and we're in a great position to exceed our original EPS guidance this year. Looking to extend our streak to 11 consecutive years of meeting or exceeding initial EPS guidance. We're investing heavily in our utilities, by upgrading our aging infrastructure, improving our customer experience. We're executing at growth opportunities at our non-utility businesses, most notably with Link and Nexus at GSP and the recent Industrial and Energy services project at P&I at the Ford complex.

We continue to maintain a strong balance sheet with sets us up nicely for future growth opportunities. And during this period of significant investments as we begin to transformer our electric generation fleet, and the strength of our utilities, combined with the growth of our non-utilities gives me a lot of confidence that we'll continue to develop -- to deliver a premium shareholder return.

In closing I'd like to remind everyone that Gerry Anderson will be giving a presentation at the upcoming EEI Conference on November 7. So this update and his update will include an early outlook for 2018, and an update on our long-term growth plan. It will be webcast on our Investor Relations website. And we hope to see many of you there.

Now I'd like to open it up for questions. And as I mentioned at the beginning of the call, we'd really like to focus the questions on the current quarter and year. I also have members of the management with me, I may call upon to answer your questions. So Debbie you can open up the line for questions.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) We'll go first today to Michael Weinstein with Credit Suisse.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Michael.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, good morning. Maybe you could talk a little bit more about how far you are along on track for P&I replacement of one-third of the expected \$40 million for new projects that you have targeted for 2021.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, we, we have announced three projects this year. And this quarter we announced the details that we've been talking about this Industrial Energy Services project at the Ford complex. So this is real visible sign that we are right now, one-third of the way there in terms of the backfill. We are targeting at this point \$40 million of backfill for 2020, which is a good portion -- a portion of the REF earnings, the REF are short duration contracts that we have asked our Power and Industrial segment to backfill a portion of that with long-term contracted earnings. We have also have a great pipeline of additional opportunities that we're looking at, and at EEI, we are actually go into lot more detail on the nature of those opportunities.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you, and for Nexus, are we -- at this point, when do you expect to start construction, and is there any remaining FERC rate issues that need to be dealt with?

A - Peter Oleksiak {BIO 7535829 <GO>}

I have Dave Slater here, the President of our -- that business unit. I will have them answer your question.

A - David Slater {BIO 20523364 <GO>}

Yeah, Michael. We actually commenced construction on the 16th of October. So we're underway and it's primarily right away work that we're commencing and we have a plan to do a number of HDDs working on the compressor stations and that will play out over the course of the winter, with main line pipeline construction commencing in the spring.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got it . Okay, well, thank you very much. And I'll cede to somebody else at this point.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks Mike.

Operator

We'll go next to Greg Gordon with Evercore ISI.

A - Peter Oleksiak {BIO 7535829 <GO>}

Hi, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks, well I will table the questions on Power and Industrial's future outlook for you guys, give you a question on that. So when we look at the quarter the underlying growth trends that you're seeing in terms of economic outlook at DTE Electric, I know the weather has been pretty big swing in earnings over the last few quarters. We're seeing really strong economic activity, across the board here.

My Chief Economist this morning just pointed out how strong the data looks, both in the US and globally. Are you seeing from the auto industry or any other big industrial segments in your service territory signs of accelerating growth? And how would that impact your outlook?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, we are seeing -- for us the best indication of the unaligned economic growth is, we take a look at customer counts within the region. So we are seeing a steady increase. We have seen a steady increase for last five or six years, of about a 0.5%, and I would say overall the Michigan economy has been diversifying over the years, and I think it's very solid and we continue to see solid performance.

And for the automotives and the automotives right now, they were at a pretty high level of 80 [ph] million units. Now they're talking about 60 [ph] million units which still is a good level for them to make some profitability. But overall there I'd put it more -- characterize it as solid economics for Michigan.

Q - Greg Gordon {BIO 1506687 <GO>}

okay. So you are not seeing any change to the upside.

A - Peter Oleksiak {BIO 7535829 <GO>}

At this point, we are still projecting it by relatively flat loads, probably underlying growth of around 1%, but we continue to see energy efficiency happening. And we have a really robust energy efficiency program that paying dividends for us, but it's relatively flat. That what we are planning for on a financial basis.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay, thank you.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks Greg.

Operator

We go next to Julien Dumoulin-Smith with Bank of America Merrill Lynch.

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

Hi, good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Julien.

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

Hey, so a quick question on the P&I side real quickly, does the additional projects, has it shifted all the roll-off and the timing of those credits at all by any meaningful amount, or is that still sort of the expectation that you laid out before.

A - Peter Oleksiak {BIO 7535829 <GO>}

The expectation is these -- there will be a roll-off in 2020, and then 2022. These projects -- this has been a great business line for us, as you know, a lot of earnings, a lot of cash. These additional projects will actually, more than anything give us additional cash. We have a significant investment program ahead of us, that we are targeting right now. You'll hear at EEI, we're really targeting kind of in state, non-REF, post REF. For each of the business lines we will give an update at EEI.

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

Got it. Excellent. And then can you talk a little bit about the change in the non-utility CapEx? Obviously there is some moves in Nexus, et cetera, but anything else there just to make sure we're not missing anything.

A - Peter Oleksiak {BIO 7535829 <GO>}

No, it's really Nexus -- really Nexus related.

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

Got it. And then turning back to the utility real quickly, some of your peers are talking about Greene's Harrison [ph] offering those as another growth avenue at the electric utility side in Michigan. Any opportunity there on your side, you guys are looking at?

A - Peter Oleksiak {BIO 7535829 <GO>}

We have a Green (inaudible), and obviously, we'll continue to work. That's definitely an area of focus for us and our commission and our customers. We do have a program similar to that.

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

Got it. Excellent. All right, well thank you very much. Really appreciate it.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks.

Operator

We'll go next to Shahriar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, Peter.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Shahriar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Let me just -- I know you are going to discuss this a little bit more at EEI, but it sounds like, from your prepared comments you've done a very good job of filling sort of any kind of gaps, as the earnings step down from REF, and it doesn't appear, or that there is a concern that the fact that you're adding additional incremental sites that you're just essentially the earnings cliff is sort of growing. So is there a concern there or do you sort of talk about, at EEI are you going to account for that, is it the tenure of the contract.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, that is a good question. The REF units does -- do provide over and above what we originally had, but it really cash at the end of the day for us, that really is going to help us near term. But we are targeting right now a post-REF, basically plan that gets us to the 5% to 7% growth profile. I wouldn't think about this as additional earnings. Actually it's good news, good additional cash. We're going to continue to optimize this business unit over [ph] the next year or so, to

continue to deliver value in cash.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

okay, great, that's helpful. And I guess we'll get more color at EEI. And then just on Nexus, do you plan on providing any sort of updates as far as the -- any updates to affirm commitments or interconnection agreements at EEI.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, at EEI, we definitely will provide a more thorough update around Nexus how we're -- how we're seeing about that. We will also try to give you a sense of where we are in terms of looking at the potential opportunities out there in terms of contracts, new contracts.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

okay, great, thanks a lot. See you at EEI.

Operator

We go next to Paul Ridzon with KeyBanc.

Q - Paul Ridzon {BIO 1984100 <GO>}

Good morning. You mentioned filing a rate case by -- was that the end of this year?

A - Peter Oleksiak {BIO 7535829 <GO>}

The end of this year for our gas utility.

Q - Paul Ridzon {BIO 1984100 <GO>}

Okay. And just to clarify, I think was Julien's question, these new sites at REF don't change the timing of the wind down but just are more cash producing?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, that is the way to think about it.

Q - Paul Ridzon {BIO 1984100 <GO>}

And then just Nexus has slipped from late '17 to 3Q '18. Can you kind of -- what -- is it still negligible impact on earnings power on '18?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, the way to think about it, is that -- and we do get the AFUDC accounting. We have talked about that. So it is pretty minor for '18, okay.

Q - Paul Ridzon {BIO 1984100 <GO>}

Okay, thank you very much.

Operator

We'll go next to Jonathan Arnold with Deutsche Bank.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Jonathan

Q - Jonathan Arnold {BIO 1505843 <GO>}

Can I just ask on -- so on the guidance increase for this year on the P&I segment, is there -- is that all REF or is there anything else going on behind the scenes?

A - Peter Oleksiak {BIO 7535829 <GO>}

It is all REF. We've had two guidance changes. The first one was related to REF as well, which was really more volume and capacity, really good plant performance at existing sites. And this is related to new incremental units that we have.

Q - Jonathan Arnold {BIO 1505843 <GO>}

So the rest of P&I is just unchanged or is that actually -- could that have strong kind of REF is growing more or what's the dynamic between the two?

A - Peter Oleksiak {BIO 7535829 <GO>}

One way to [ph] think about this from a normalized basis is go back to the original guidance for that segment. And that's the way --

Q - Jonathan Arnold {BIO 1505843 <GO>}

And then all of the delta is REF?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, pretty much.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, and then just one question, is there any -- has there been any talk of these tax credits potentially getting extended given the administration's focus on coal and doing things that might not have been done in the past?

A - Peter Oleksiak {BIO 7535829 <GO>}

We do not anticipate at this point in time.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, and just more general -- I know you are going to talk more about the strategy further out, but I just want to be clear that what you're announcing today, this Ford deal is the large CHP deal that you've been talking about really since the beginning of the year.

A - Peter Oleksiak {BIO 7535829 <GO>}

That is -- yeah that is correct, Jon. And it's really -- kind of given you the details of this exciting new project.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Right, and the other two are the landfill gas transactions that you announced I think two quarters ago, now.

A - Peter Oleksiak {BIO 7535829 <GO>}

That is correct. And we'll give you more update around the nature of these bunch of new opportunities, and how we are booking for -- at the segments.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Right, I just had the sense that you -- earlier in the year, you would have been anticipating having more of this to announce by now. So I am just curious what the -- how -- if you can

comment on the sort of momentum, in the -- currently and filling in this gap as opposed to maybe the sort of plan.

A - Peter Oleksiak {BIO 7535829 <GO>}

We are -- we actually internally, we do track this. We are on target right now with the backfill. I think that we have a few years for the backfill to occur. This segment overall has 70 projects. So we knew, it's going to be a handful of projects replacing the portion of REF -- REF in P&I segment to replace. So in terms of pro rata actually they are -- we have done really good right now with the projects that we executed as well as those are in the pipeline.

Q - Jonathan Arnold {BIO 1505843 <GO>}

So is 70 the universe of things you're looking at?

A - Peter Oleksiak {BIO 7535829 <GO>}

70, that number is actually the current number of projects that we have. So I gave that just to give you a perspective that we have a lot of projects. So there is -- the replacing of REF will not happen with maybe one or two, it will be a handful, probably half a dozen of projects will replace the amount of REF that we've asked this business unit to replace

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. And is this sort of -- I think the last time you talked on this, the idea was it would be pretty more skewed towards the smaller landfill gas deals then additional forward type deals, is that still the thinking?

A - Peter Oleksiak {BIO 7535829 <GO>}

yeah. All these opportunities we kind of bid them out [ph]. Those are the two areas right now that we're looking at. It's hard to say which ones will come from one segment or the other, at the end of day, but both of them will -- this is one area in particular that we'll talk about in a little more detail at EEI, to give you the sense of the nature of these type of opportunities.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thanks a lot.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks Jonathan.

Operator

We go next to Charles Fishman with Morningstar. Thank you,

Q - Charles Fishman {BIO 4772353 <GO>}

Thank you. Peter, the Ford project, you have an ongoing relationship with Ford. Is this just a one-off or is this -- should we anticipate that maybe Gerry talks about what's downstream with Ford additional CHP projects?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, this is really -- they are going through -- like a lot of the automotives, Ford particularly has gone through how do they set themselves up for the future. And so they are redesigning and upgrading to campus. This research engineering center was one, in particular. And they wanted to have renewable green power there and they partnered with us. So it is a special kind of one type of project, but we do have a great relationship with Ford, as you mentioned.

Q - Charles Fishman {BIO 4772353 <GO>}

You have assembly plants that you provide a similar service to them, to Ford [ph]?

A - Unidentified Speaker

Yeah on site energy. Yeah, we provide the onsite power, chilled water, utility type of services at the assembly plants. Yeah, and so this one would be under a newly constructed. It's more of a -- on the campus really housing their engineering center.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. Well, congratulations on that. Thank you. Look forward to hearing Gerry's presentation at EEI.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you, Charles.

Operator

We will go next to Paul Patterson with Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you?

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

So -- sorry to sort of go over this REF thing but I am not completely clear. I understand you guys are doing better in that business, et cetera, but you also mentioned the impact of -- by -- sound like it was partners. I was just wondering if you could describe a little bit more detail. I was just was missing in terms of what that impact was or what I am -- if you could just clarify that again?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, no, I definitely will clarify it. These projects generate tax credit, that's really where the value of those tax credits -- those tax credits are immediate for us. And we can utilize that in the future, going forward for [ph] tax, tax cash. When we look at our cash position right now in terms of our taxes, it makes sense for us for some of these projects to enter into partnerships where we essentially sale a pro-rata piece of the partnership and the credit. So it's really the -- for us is the timing of this, that we are in the process now of looking for some partners for these units. In the meantime, we're enjoying some really good earnings around these projects. But we will be entering some partnerships. So it's a really an earnings for cash trade [ph], so you'll just see this in the segments over the next year or two. If there's additional relocations we may do -- you may see a temporary kind of up in earnings related to tax credits. But as we maximize cash and value kind of a down a bit on those on that op.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So this is sort of a temporary benefit because of the increased REF tax credits but that will be decreasing, I guess in the next few years as you're monetizing it with these partners, is that the way to think about it?

A - Peter Oleksiak {BIO 7535829 <GO>}

Right as we start to permit [ph] out the cash now, and we have a significant investment portfolio ahead of us, so this definitely -- the cash is needed now to help fund that.

Q - Paul Patterson {BIO 1821718 <GO>}

And what is the -- how much should we think about that, REF earnings projection going -- as we go forward in this, how should we think about that earnings associated with REF, could you quantify that a little bit more?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, we -- the way to think about this segment overall, is you look back at the original guidance in the segment, which was it would go up to the \$95 million. So once we get through a lot of this, so the partnership monetization, and getting the cash outflow, we will peg it back to a normalized REF. So these units are going to be throwing up additional cash and some earnings for us over the next few years. But you can think about it by looking back at the original guidance. That's the best way to do it.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then just in terms of the Ford deal, how much of that you are going to be -- how much CapEx is associated with that?

A - Peter Oleksiak {BIO 7535829 <GO>}

We haven't disclosed that amount? At this point in time we will -- once again it is a great investment for us and part of that overall backfill strategy for REF units.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Okay, thanks a lot guys.

Operator

We'll go next to Andy Levi with Avon Capital Advisors.

Q - Andrew Levi {BIO 17235317 <GO>}

Hey, good morning, Peter. How are you?

A - Peter Oleksiak {BIO 7535829 <GO>}

Good.

Q - Andrew Levi {BIO 17235317 <GO>}

Actually all my questions were asked. Just one follow-up, just on the Ford announcement. So that's a one-off, there's no expansion opportunities there on that one particular project?

A - Peter Oleksiak {BIO 7535829 <GO>}

No, it's an -- kind of onsite project for us with their new engineering. We have additional opportunities, with similar type of financial projects with other type of customers. But this one really is -- it's just kind of a standalone type of project. Once again we're very excited to be working with Ford on this one.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay, great. And then at EEI, will we get numbers around that project, just to kind of figure out what the opportunity is longer term on other similar projects or that will just be part of overall the guidance that you give?

A - Peter Oleksiak {BIO 7535829 <GO>}

We will give a description of this area little bit more, and the nature of potential opportunities, additional opportunities in this area, we will provide that at EEI.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. Thank you.

Operator

And we'll go next to Kevin Fallon with Citadel.

Q - Kevin Fallon {BIO 19872493 <GO>}

Hey, Peter, how are you?

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning Kevin.

Q - Kevin Fallon {BIO 19872493 <GO>}

Just a question on the -- on the monetizing the REF credits going forward, do you have like a deferred balance right now that you would monetize, or is it just basically selling the earning stream to somebody else going forward?

A - Peter Oleksiak {BIO 7535829 <GO>}

It's really selling the earnings stream yeah, we do -- yeah, we not -- do have a deferred balance on our balance sheet. That's the reason why we -- periodically we take a look at this and see what the cash value to us in the future on tax benefits versus monetizing and getting into a partnership.

Q - Kevin Fallon {BIO 19872493 <GO>}

Okay. And how many REF projects do you currently have?

A - Peter Oleksiak {BIO 7535829 <GO>}

We have -- currently right now we have 11 projects.

Q - Kevin Fallon {BIO 19872493 <GO>}

Okay. And in the original guidance, we go back to our early look from EEI last year. I think the P&I segment was 90 million to 100 million, which I think is the base you were pointing back to. What's the REF percentage or REF amount in there?

A - Peter Oleksiak {BIO 7535829 <GO>}

We really don't give that type of disclosure, but I can tell you that this segment overall is supported by 70 projects -- this segment for last 20 years. It is a series of a lot of different projects. They basically come and go. Currently at the moment, a good majority of the earnings right now is related to the REF projects. And that's one of the reasons why we have a bank [ph] of strategies. So we've asked -- got these real short-term duration earnings. A portion of that we're going to add to our P&I segment to -- at the backdrop. But probably a straight answer is the majority of earnings at this point in time is really through REF. But we're very excited in terms of the new projects and really terming out those short-term earnings in terms of long-term contracted earnings.

Q - Kevin Fallon {BIO 19872493 <GO>}

Okay. So there were -- there were seven projects in the original guidance from EEI last year, that's what you said, and you are up to 11 now?

A - Peter Oleksiak {BIO 7535829 <GO>}

Overall, we have -- we have 11 currently.

Q - Kevin Fallon {BIO 19872493 <GO>}

But in the original guidance?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, the original guidance, we did have the 11. And this, -- these are really related to -- we had two incremental, potentially projects come online. One of them was a relocation, and we potentially continue -- may continue to do that over the -- over the near term. The other one was an acquisition. So they are both ran, but this is related to the timing of getting into these partnerships. So we're recognizing now and benefiting from the tax credit earnings and when we start the partnerships we will be benefiting from the near term cash flow stream.

Q - Kevin Fallon {BIO 19872493 <GO>}

I got you, and just last thing, the 5 to 7 earnings growth is off the original guidance and that's what we should be using as a base to project through the out years?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, I'd say for now that would be the best approach.

Q - Kevin Fallon {BIO 19872493 <GO>}

And what is the original guidance?>

A - Peter Oleksiak {BIO 7535829 <GO>}

It was a midpoint of 5.31..

Q - Kevin Fallon {BIO 19872493 <GO>}

A midpoint of 5.31, that's what we should go 5% to 7%.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, and we just -- and I don't we have it in our current presentation. But if you go back to original guidance, that's the best -- the project really normalizes for weather at both of our utilities, as well as for the REF, (multiple speakers) We will be giving you an update here at EEI in terms of our growth rate projections and how to think about that going forward.

Q - Kevin Fallon {BIO 19872493 <GO>}

Thanks great.

A - Peter Oleksiak {BIO 7535829 <GO>}

For now the best way to think about is our original guidance.

Q - Kevin Fallon {BIO 19872493 <GO>}

Perfect, thank you very much.

Operator

Ladies and gentlemen, that concludes our question-and-answer session for today. Peter, I'll turn it back to you for closing remarks.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you everybody for joining us this morning, and I definitely look forward to seeing a number you here at EEI over the next couple of weeks. And once again, I think we have a really good message to tell and we'll give you the update, as I mentioned earlier. Till then have a good rest of the day.

Operator

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

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