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DTE Energy Company (DTE) CEO Jerry Norcia on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release *Slides*

EPS of $1.91 misses by $-0.06 | Revenue of $3.12B (-12.14% Y/Y) misses by $-634.23M

Earning Call Audio

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DTE Energy Company (NYSE:DTE) Q3 2019 Earnings Conference Call October 28, 2019 9:00 AM ET

Company Participants

Barbara Tuckfield - Director of Investor Relations

Jerry Norcia - President and Chief Executive Officer

Peter Oleksiak - Chief Financial Officer

Conference Call Participants

Praful Mehta - Citigroup

Julien Dumoulin-Smith - Bank of America Merrill Lynch

Michael Sullivan - Wolfe Research, LLC

Andrew Weisel - Scotia Howard Weil

Shahriar Pourreza - Guggenheim Partners

Angie Storozynski - Macquarie Group

Sophie Karp - KeyBanc Capital Markets Inc.

David Fishman - Goldman Sachs

Anthony Crowdell - Mizuho Financial Group, Inc.

Gregg Orrill - UBS Warburg LLC

Charles Fishman - Morningstar, Inc.

Operator

Good day and welcome to the DTE Energy Q3 2019 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead, madam.

Barbara Tuckfield

Thank you 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 earnings to operating earnings provided in the appendix of today's presentation.

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

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

Jerry Norcia

Thanks, Barb, and good morning, everyone, and thanks for joining us today. This morning, I'm going to give you a recap of our performance for the third quarter of 2019, a business unit update, and provide the overview for the 2020 early outlook and early thoughts on our long-term growth.

At EEI, we'll provide a deeper review of our long-term growth plans and strategies. Then finally, I'll turn it over to Peter who will provide a financial review of the quarter, updates to cash, capital, and equity, and the details on our 2019 guidance and 2020 early outlook. Then I'll wrap things up before we take your questions.

So let's start on Slide 4. We continue to make great progress on a number of key fronts. Our third quarter financial results are solidly on track with our plan. Given the strength we have experienced in the first three quarters of the year, I'm announcing an increase to our 2019 operating EPS guidance.

We are increasing our 2019 guidance midpoint $0.03 to $6.23. This represents EPS growth from original guidance in 2018 to 2019 of 8%, which was quite impressive at this point. This increase is due to the strong performance at all of our business segments and the fact that we will have continued to build contingency that will carry us through the fourth quarter. Peter will provide more details on that front in a few minutes.

Today, we are also providing the 2020 early outlook for operating EPS guidance with a range of $6.47 to $6.75. I'm pleased to say that this is a 7.5% increase over our 2019 original guidance and includes the impact of the recent midstream acquisition we announced earlier this month.

Longer-term through 2024, we are using the higher 2020 early outlook as a new base for our 5% to 7% operating EPS growth rate. I'm also pleased to announce a 7% dividend increase that was just approved by our Board. The new annualized dividend per share is $4.05, up from $3.78. This continues DTE Energy's consistent dividend history, having issued a cash dividend for more than 100 years.

This increase reflects the company's strong performance and ability to consistently achieve our goals. The Board's approval of the increase signals confidence in the company's performance and long-term strategic plan.

Turning over to the business update, all of our businesses have accomplishments to note this quarter. DTE Electric recently announced our goal to achieve net zero carbon emissions by 2050. This bold new goal sets the framework to go beyond our existing commitment to reduce carbon emissions 50% by 2030 and 80% by 2040.

DTE Electric's medium- and long-term plans are aligned with the scientific consensus around the importance of achieving carbon emission reductions. We are fully committed to dramatically reduce carbon emissions. This is the right thing to do for our customers, our business, and the environment. We are doing as much as we can, as fast as we can to provide our customers and the State of Michigan with clean energy that is affordable and reliable.

Additionally, DTE Electric is progressing on its voluntary renewable energy program. Over 400 megawatts have been committed by commercial customers, including Ford, General Motors, University of Michigan, and most recently the Detroit Zoo. Additionally, nearly 10,000 residential customers have committed to a portion of their monthly bills to renewable power.

Along with our carbon reduction plan, our natural gas plant, Blue Water Energy Center is also progressing on plan. We broke ground last year and received all the necessary permits. The plant is a little over 30% complete with the turbines already on site and an expected in-service date of the spring of 2022.

Moving on to our gas company, we are continuing to progress with our accelerated main renewal program. We've already renewed a significant number of miles this year and we will complete 180 miles by yearend. We are also continuing to develop plans to invest in additional system improvements, including a transmission renewal program to support the growth, integrity, and reliability of our system.

This new program, along with our main renewal program showcases DTE Gas' commitment to provide safe and reliable service to our customers. These projects will be described in more detail on our rate case filings later this fall.

Now, I'll turn over to our non-utilities. At our gas storage and pipeline business, we recently announced the acquisition of midstream assets in the Haynesville Basin. These assets include an existing gathering system and 150 mile gathering pipeline that is currently under construction. This set of assets complements our GSP portfolio and provides a new platform for value creation, which will enable strong growth opportunities for years to come. It has a strong strategic and financial rationale, delivering compelling value to our shareholders.

It is underpinned by high quality resource that is well positioned on a North American gas supply stack. We believe that natural gas will play an increasingly important role in meeting energy demand as we all seek to mitigate climate change in the coming years. The economics are sound and the transaction is EPS accretive, accelerating achievement of our 5-year growth plan, while maintaining a strong balance sheet and credit profile.

And this transaction is one of the drivers of the 7.5% increase in our 2020 outlook. As we mentioned on the call, we are committed to maintaining a 70% to 75% utility mix. At EEI, we will provide the details on how this fits into our 5-year plan.

Now, let me turn over to Power and Industrial. We also had some major milestones this quarter. In September our P&I business announced the opening of its first combined dairy RNG processing and interstate injection facility. The site processes raw biogas from nearby partner farms into renewable natural gas. Pipeline-quality is then injected directly into an interstate pipeline. Converting raw biogas into RNG is a win-win both for dairy farms and the environment.

Capturing this gas reduces the overall greenhouse gas footprint, provides the farms with another revenue stream and help create a clean, sustainable, vehicle fuel that displaces fossil-based gasoline or diesel-fuel. We've made great progress in the energy space over the past few years, which will enable P&I to achieve its long-term goals.

So I'm feeling really good about the progress we're making in all of our business lines. Now, moving on to Slide 5, I will discuss our 2020 early outlook and long-term plan.

Today, we are providing the 2020 early outlook for operating EPS guidance with a range of $6.47 and $6.75. This is 7.5% increase over our 2019 original guidance, and includes the, as I mentioned, the impact of the recent midstream acquisition we announced earlier this month; longer term, we are increasing our base, and growing from the higher 2020 early outlook through 2024. This will be the new base for our 5% to 7% operating EPS growth rate.

We believe growing off the new base, provides shareholders with incremental near- and long-term value. We'll provide additional details by segment when we see you at EEI.

With that, I'm going to turn it over to Peter, to share our financial results and give you more details on our 2020 early outlook.

Peter Oleksiak

Thanks, Jerry, and good morning, everyone. Before I get into the financials, I always like to give an update on the Detroit Tigers. Yeah, Tigers did come into last – in the last place this year. But the good news with that last place finish is they get a first draft pick next year. And I'm hoping they find another Justin Verlander. So overall, I'm looking to the future and feeling pretty good about it. And like my Tigers, the financials are as consistently strong here for DTE.

Now let me turn your attention to the financial results, and I will start to review on Slide 6. Total earnings for the third quarter were $351 million. This translates into $1.91 per share for the quarter. And you can find a detailed breakdown of EPS by segment including our reconciliation to GAAP reported earnings in the appendix.

Let me start my review at the top of the page with our utilities, DTE Electric earnings were $307 million for the quarter. This was $3 million higher than 2018 largely due to the impact of new rates implemented in May, offset by rate base growth costs and cooler weather in 2019. As a reminder, the third quarter of 2018 was one of the hottest quarters on record in our region.

DTE Gas operating earnings were $10 million lower than last year. The earnings change is driven primarily by rate base growth and higher O&M expenses. This was partially offset by rate implementation. But keep in mind, only a small portion of this new rate was attributed to third quarter as a result of typically low volumes in the third quarter.

Let's move down the page to our Gas Storage and Pipeline business on the third row. Operating earnings for our GSP segment were $60 million for the quarter, last year GSP experienced higher earnings related to AFUDC at NEXUS and higher than planned volumes across the portfolio. This year we have normalized earnings at NEXUS and volumes are on plan.

As a result, this quarter is $4 million lower versus the third quarter of 2018. GSP is performing according to plan through the third quarter, and we will continue to see the benefit in the remainder of the year from the volumes on Link that continue to ramp-up, and the impact of the recent expansions and acquisitions.

On the next row, you can see our Power and Industrial business segment, operating earnings were $49 million. Earnings are $14 million lower than the third quarter of 2018 and this decrease is due mainly to the REF tax equity transactions that occurred in the fourth quarter of last year. As we communicated previously, we entered into equity partnerships in our REF units and accelerated cash flows around $100 million per year for 3 years to support our growth projects. This lowers earnings this year around $40 million versus 2018.

Our Energy Trading business had a strong quarter with operating earnings of $18 million. Earnings are higher this quarter compared to the third quarter last year due to the higher power portfolio earnings. Our trading company is having another solid year. Year-to-date economic earnings are on plan and in line with guidance. The appendix contains our standard energy trading reconciliations, showing both economic and accounting performance.

And finally, Corporate and Other was unfavorable $15 million this year compared to the third quarter last year and this was due primarily to the timing of taxes. So overall, DTE earned $1.91 per share in the third quarter of 2019.

Let's move on to Slide 7. Jerry mentioned, we are increasing our 2019 earnings guidance. As you remember, we increased guidance at both DTE Electric and DTE Gas on the second quarter call, so this is the second increase we provided this year. We're experiencing favorability in all the segments with particular strength in the Electric segment, Power and Industrial, and Energy Trading. DTE Electric is benefitting from warmer than normal weather, P&I is favorable due to the optimization of REF units and Energy Trading earnings came in strong in the third quarter. We feel really good about how strong 2019 is coming in, so we are confident in achieving the increased guidance range.

Now I'll transition to 2020 to discuss our early outlook. On the right side of that slide, we are providing 2020 EPS early outlook midpoint of $6.61 per share. The midpoint of this early outlook provides 7.5% EPS growth from the 2019 original guidance.

On the next 2 slides, I'll be going over the early outlook for our 4 largest business units, but if I move on to those slides to discuss the year-over-year drivers, I'll mention that Energy Trading's 2020 operating earnings range of $15 million to $25 million, which is the economic contribution range we typically target for this business. Also, our Corporate and Other segment grows in 2020 with the interest on the equity converts and this returns to a lower steady state when they are converted to equity.

So now let's – let me move on to Slide 9. And I'll start on the left hand side of the page. Our 2020 early outlook midpoint for DTE Electric segment is $766 million. This provides earnings growth of 8.7% over 2019 original guidance. The early outlook includes distribution and generation investment growth. Longer term, the Electric segment will continue to grow by 7% to 8%.

Moving to the right hand side of the page at our DTE Gas segment of the 2020 early outlook midpoint is $189 million, the 2019 original guidance midpoint was $175 million, the early outlook provides earnings growth of 8% of the 2019 original guidance. So this year-over-year increase is in line with our long-term growth target for DTE Gas and is driven by the continuation of our accelerated main renewal program. Longer term, we expect the Gas segment to grow at the higher end of our 8% to 9% growth rate.

Now move on to Slide 10 to review our early outlook for our non-utilities. Again, starting on the left hand side of the page on the Gas Storage and Pipeline business, our original guidance for 2019 for this segment was $213 million and increases to $285 million in 2020. Now this represents an increase of 34%. That increase is mainly due to the acquisition of the midstream assets in the prolific Haynesville Basin. And previously, we said the annual increase to our GSP segment earnings would be approximately 12%, so we've essentially accelerated growth into 2020.

Now GSP had an active year in 2019, acquiring Generation Pipeline, an additional 30% stake in the Link SGG, and of course, the Blue Union and LEAP assets. All these will contribute to what we expect to be another strong year at GSP in 2020. We've been planning carefully in 2020 given the market conditions we're seeing, and these new platforms will allow us to build growth objectives and rebase the whole company at a higher growth rate.

Now moving into right side of the page. Our P&I segment is $14 million higher in 2020 versus 2019. This segment continues to drive earnings and value for the company. This earnings increase is from the work we've been doing over the last few years as we originate new projects and income to replace REF when it fully sunsets. We've secured additional REF units that will generate strong cash flows for the next 2 years, reducing equity needs.

As you look out to when REF sunsets to the end of 2021, we remain confident that the backfill of REF will occur between these 2 non-utilities segment and the total portfolio, and we'll be well within our targeted 70% to 75% utility mix. As you can see these 2 non-utilities are bringing a build lift of earnings here in 2020. We will be providing a detailed update at EEI in a few weeks.

Now on to Slide 11 to cover the balance sheet. We expect to issue a total of $500 million of – in equity here in 2019, including $300 million of acquisition equity financing, and $200 million has already been issued through internal mechanisms. For the 3 years 2020 to 2022, we will be issuing $1.5 billion to $2 billion of equity, including convertible equity units related to the acquisition. And in 2020, we will be issuing $300 million of equity using internal mechanism.

For 2019, we are increasing our cash and capital guidance for this – for the year due to the investment in our new midstream assets, and you can find the updated cash and capital guidance in the appendix. We have a strong credit rating at all 3 agencies, which is very important to us. S&P is a strong BBB with an excellent business risk profile, and Moody's and Fitch are one notch above S&P. We have reviewed our recent midstream transaction with all agencies and expect to maintain a strong credit rating.

S&P has indicated that we will hold a strong BBB and also our excellent business risk profile, so a great outcome there. Fitch and Moody's did take some action on their current rating. Moody's has revised the rating to a Baa2, which falls in line with S&P. We will have plenty of balance sheet cushion with the ratings of both agencies. Our goal is to continue to maintain a strong investment-grade credit rating. That wraps up my section on 2019 earnings guidance and the 2020 early outlook.

Now I'm going to turn it back over to Jerry to wrap things up.

Jerry Norcia

Thanks, Peter. I'll wrap up on Slide 12 and then open up the line for questions. 2019 is shaping up to be a strong year as evidenced by our guidance increase, so we expect and continue our pattern of exceeding original guidance for over a decade. You can tell from our 2020 early outlook that we are planning for another strong year next year. The 2020 operating EPS midpoint of $6.61 provides 7.5% growth from our 2019 original guidance. The side's growth rate is driven by a strong performance at all of our business units, with healthy growth at our 2 utilities, continued business development at P&I and the near-term EPS accretion from our recent GSP midstream acquisition. For 2020, GSP's growth is more than double what we had anticipated.

Going forward, we will continue to target a 5% to 7% EPS growth with 2020 outlook as the base of that growth. Our 7% dividend increase for 2020 demonstrates our confidence in the company's performance and long-term strategic plan.

Our utilities continue to focus on necessary infrastructure investments, specifically for investments to improve reliability and the customer experience. Our non-utilities continue to position us for long-term growth.

Finally, I feel great about our ability to continue to deliver the premium total shareholder returns we have delivered over the past decade.

And with that, I'd like to thank everyone for joining us this morning. And, Sergey, you can open up the line for questions.

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions] Our first question comes from the line of Praful Mehta of Citi. Please go ahead.

Praful Mehta

Thanks so much. Hi, guys.

Jerry Norcia

Good morning.

Peter Oleksiak

Good morning.

Praful Mehta

Good morning. So maybe just first, starting with the equity that you pointed out on Slide 11, the $1.5 billion to $2 billion in 2020 to 2022, I'm assuming in 2022 you're including approximately what $825 million of mandatory converts?

Peter Oleksiak

They do include the mandatory converts. It will be approximately $1 billion related to the acquisition, but the $1.5 billion to $2 billion does include those converts.

Praful Mehta

Okay. Got you. That's helpful. And the 2020 guidance that you provide, all that includes is an additional $300 million of equity in 2020. So, I just wanted to understand the share count that you're using for that 2020 guide.

Jerry Norcia

Yes, we have $300 million that we will be issuing next year in 2020. And here in 2019, we will be issuing the $500 million that we previously disclosed.

Praful Mehta

Got you. And just finally, I just want to stay on the credit theme, I guess. You mentioned that a couple of the agencies clearly expressed some concern. Do you see any scenario where there is additional need to issue equity in a particular business? I guess, how the business kind of moves forward from here? Do you expect any need to issue additional equity to kind of satisfy the rating agency concerns?

Jerry Norcia

No, I do not. The S&P rating, in particular, our strong BBB and excellent business risk profile, we were really targeting that. So we are very happy with that outcome. It gives us – actually, we have a lot of cushion even within that current rating and profile.

Moody's did fall in line with S&P. A part of the issue with Moody's is they do not recognize the converts as equity. So that was one of the reasons behind the action they took, but with their new rating, we have a lot of cushion as well. So, we're feeling really good where we're at with the rating agencies at this point.

Praful Mehta

All right, great. Thanks so much guys.

Operator

Our next question comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch. Please go ahead.

Julien Dumoulin-Smith

Hey, good morning team.

Jerry Norcia

Hey, Julien.

Peter Oleksiak

Good morning.

Julien Dumoulin-Smith

Howdy. Perhaps, if I can come back to just the transaction last week, help clarify just a quick follow-up here. I mean, as you think about that $0.45 in the organic growth of that business, just again, to come back to off of the run rate 2021, 2022, 10 times multiple, how do you think about that? That's a – how do you think about the growth to the 5-year outlook first-off just to reconcile that, and I've got a follow.

Jerry Norcia

Well, I think, Julien, the first thing is that the transaction supports the 7.5% growth, 2019 over 2020. And then as we've mentioned, we reestablished 2020 as the base for the 5% to 7% growth going forward long-term. So, we view the transaction not only as providing a lift, 2019 over 2020, but certainly provided an uplift long term as well in the plan and filled all the growth needs that we have at GSP.

Peter Oleksiak

I think just to add on as well in this segment in particular, we're feeling really good with the growth rate going forward. We will be talking in more detail at EEI about this. I can tell you though that we have a previous disclosure out there of 2023, and we're going to be more than achieving that.

Julien Dumoulin-Smith

Got it, okay. But just from a planning perspective, as you think about the other investments that have been talked about before, the NEXUS laterals, Link expansion capital, perhaps generator and connections. What are you thinking about it? And I know we're getting ahead of the GSP disclosures perhaps coming up here in a couple weeks. But I just want to clarify, what else are you thinking about out there on GSP?

Jerry Norcia

Well, Julien, again I'll repeat that. It certainly supports the 7.5% growth, 2019 over 2020. And if you lock in that growth and then grow 5% to 7% from there, this transaction as well as the other investments in GSP, and let's not forget that the bulk of our investment is going into our 2 utilities, those high growth rates from our utilities, high growth rate from GSP, as well as the strong growth off the P&I base will support 5% to 7% growth over the new 2020 base, and we'll provide a lot more detail by business segment at EEI.

Peter Oleksiak

Yeah, we will, and in this segment in particular, we have some great growth platforms now, so we're not looking for any big new acquisitions. So, we have a lot of opportunities. You mentioned a few just in your question there. So between Link and NEXUS, and now this new Blue Union and LEAP asset, we're going to have a lot of organic growth opportunities, but we'll give more updates here at EEI.

Julien Dumoulin-Smith

Got it. If I can clarify quickly the early 2020 outlook, I mean it looks like it implies even ex the latest transaction, a pretty healthy degree of growth off the 2019 base for GSP. Can you talk about what's driving that? I mean, as you say, it seems like a 12% type growth number?

Jerry Norcia

Well, two things, the transaction, as we mentioned, is providing significant accretion next year. So, it is filling a portion of the growth objective of GSP, but I can tell you we're also planning very carefully for the balance of the platform at GSP in light of market conditions.

Julien Dumoulin-Smith

Nothing specific though, and that's for next year.

Jerry Norcia

That's for next year.

Peter Oleksiak

That's for next year, correct.

Jerry Norcia

So we're working very closely with all the producers. So our plans reflect that. It will be in – be very careful.

Julien Dumoulin-Smith

Got it. All right. Well, I look forward to see you guys and hear more in a couple of weeks. Cheers.

Operator

We will now take our next question from Michael Sullivan of Wolfe Research. Please go ahead.

Michael Sullivan

Hey, good morning.

Peter Oleksiak

Good morning.

Jerry Norcia

Good morning.

Michael Sullivan

Yeah. So first, I just wanted to follow-up on that last question. So is there any more detail that you can give us as to how the base midstream business is growing sort of ex the transaction you just did. And then I think also the – upping the stake in Link and the

Generation Pipe, just kind of, what the base business is doing? And how that stacks up to what you were previously anticipating?

Jerry Norcia

Well, what we can say is that if you look at all those investments and that drives a 30% – 34% growth year-over-year in the GSP segment, and overall, allowed us to lift our corporate growth of 7.5% year-over-year, and sets us up really nicely long-term that meet our 5% to 7% growth corporately, along with our growth at our utility. So we typically don't describe each platform, but what I can tell you, I'll repeat is that the balance of our platforms, we are planning for it very carefully next year in light of the market conditions. So the 34% reflects that and supports our 7.5% growth year-over-year.

Michael Sullivan

Okay, thanks. And then switching over to P&I. Can you just give any color around the recently acquired REF units that you mentioned? How much of a contribution that was towards 2020 and when those will roll off?

Jerry Norcia

Yeah, we did acquire some new units that here in the late summer, and we did redeploy those at existing sites, where with it some units were sunsetting. So REF is flat. The way to think about is, REF is flat year-over-year. So the growth we're seeing is really around the origination that we've been doing over the last few years. These additional units in REF will contribute about $30 million over the next couple of years, which is a really nice chunk of cash and it really helps reduce equity needs over the next 3 years.

Michael Sullivan

Okay. And when do those roll off, the new ones that you just acquired?

Jerry Norcia

Yeah. The new ones as well as all the existing is the end of 2021. They all sunset at that point in time.

Michael Sullivan

Great. Okay. Thank you very much.

Operator

Our next question comes from Andrew Weisel of Scotia Howard Weil. Please go ahead.

Andrew Weisel

Hey, good morning, everybody.

Peter Oleksiak

Good morning.

Jerry Norcia

Good morning, Andrew.

Andrew Weisel

Just one quick one. Obviously, a nice dividend increase today. My question is going forward, is there any change to the dividend policy, given the mix shift with about 35% of next year's earnings come from – coming from the non-utilities, and all the credit updates that you talked about earlier? How do we think about the dividend policy going forward?

Jerry Norcia

Well, typically, we have said and continue to maintain that will grow dividends in line with our earnings growth, but we'll be able to provide a little more color in detail on that at EEI as to how will it look going forward. But certainly it will be in line with earnings growth.

Peter Oleksiak

With earnings growth. Yeah, we haven't really changed that philosophy, Andrew.

Andrew Weisel

Okay. So the same policy will continue going forward then?

Peter Oleksiak

Yes. That's correct.

Jerry Norcia

That's correct.

Andrew Weisel

Okay, great. That's all I had. Thank you.

Operator

Our next question comes from Shahriar Pourreza of Guggenheim Partners. Please go ahead.

Shahriar Pourreza

Hey, guys.

Jerry Norcia

Hey, good morning, Shahriar.

Peter Oleksiak

Good morning.

Shahriar Pourreza

I apologize, I jumped on a second late. The comment that you made just around planning in light of market conditions, so like the 33.8% includes that. Is that – can you just elaborate what you mean by that? And is that tied to a specific asset in the producer. So I'm kind of curious if you can just touch a little bit on what you mean by that?

Jerry Norcia

Well, we're looking at all our platform, Shahriar. And certainly, we're operating in a low price environment. So as we continue our conversations and discussions with our partners, we are forecasting earnings growth of 34% in this business line in light of these market conditions. If the market conditions improve, things could change. But certainly, we're planning carefully for this business segment at this point in time. In addition to the balance of our portfolio, which we feel very comfortable will help us deliver a 7.5% growth year-over-year.

Shahriar Pourreza

So this isn't really tied to credit quality or financial conditions of the actual producers, but more of a pricing environment, which…

Jerry Norcia

Both pricing and production. Yes, that's correct.

Shahriar Pourreza

Okay. Got it. And then just as you guys look at the contracts, what remains at NEXUS. There is a portion of it, obviously, that's still under short-term contracts. Is that – are these market conditions, do they continue to dictate that you'll remain within that kind of a tenure of these contracts? Or is there an opportunity to actually contract longer term?

Jerry Norcia

Sure. We have started to see interest in and terming out longer than we've seen in the past. So we find that as an encouraging signal from the market that there is desire to contract somewhat slightly longer-term. And so we continue to move our contract portfolio in excess in that direction. So we are seeing positive signal there.

Shahriar Pourreza

Got it. Got it. And let me just ask you one last one. Is the signals that you are seeing as far as longer-term contracts, is that predicated on the delay of 2 existing pipe projects?

Jerry Norcia

Certainly, we think that could be having an impact. And, of course, production continues to grow in the Appalachia at this point in time. So we believe that it's a combination of those factors was creating more interest.

Shahriar Pourreza

Perfect. Thanks, guys. Congrats.

Operator

Thank you. Our next question comes from the line of Angie Storozynski of Macquarie. Please go ahead.

Angie Storozynski

Good morning. Most of my questions have been asked and answered. But I have a question about your renewable natural gas type of plans and investments. I mean, we've seen this sharp decline in RIN prices. And I'm just wondering, if you guys have a view where those prices will go and how it's being depicted in your 2020 guidance?

Peter Oleksiak

So thank you for that question. The bulk of our returns from RNG asset investments are in the dairy sector, and most of the value from that comes from the low carbon fuel standard that exists in California to displace essentially diesel and gasoline in the CNG markets. We have seen a decline in the RIN pricings, but we have seen it also start to recover recently. But it forms a small portion of our forecast for these assets and these investments, which with the LCFS they still remain very attractive assets and very attractive returns.

Our outlook, you asked, how do we feel about how it's looking. Feel that the EPA will issue a volume obligation. They'll be more in line with the supply that's available. And I believe that's why we're starting to see somewhat of whatever recovery in the pricing for the RINs.

Angie Storozynski

Great. Thank you.

Operator

Our next question comes from Sophie Karp of KeyBanc. Please go ahead.

Sophie Karp

Hi, good morning.

Jerry Norcia

Good morning, Sophie.

Sophie Karp

[Technical Difficulty] question, so just wanted to come back real quick to the midstream segment, the $0.15 accretion that you talked about on the call earlier, when you announced the deal? Is this fair to think about the 2020 as $0.15 of the growth comes from that and the rest from other organic opportunities at this time?

Jerry Norcia

Yeah. Actually that's a good way of thinking about it. Yeah, the 15%. Part of that 7.5% includes that 15% for sure.

Sophie Karp

$0.15 you mean?

Jerry Norcia

Yeah, $0.15. Yeah.

Sophie Karp

Okay. Thank you. And then, I wanted to dig a little more into utility earnings. So being roughly flat year-over-year in the DTE Electric rate. And I understand there's been a weather volatility last year and this year. But sort of the way you describe it, if we stripped away the weather impacts completely, would that have grown in line with your, kind of, long-term rate that you're projecting? And is there something within the rate implementation growth, of course, that is unusual this year?

Jerry Norcia

Yeah, that's correct. We had – last year was one of the hottest we've had here – on record here in Michigan in the region. So you take that away and normalize weather this year, we had positive weather this year of $27 million, but last year was much higher. That was over $60 million, that when you take that away, kind of, look at the rate base growth, it will be in line with the 7% to 8% that we expect from this segment.

Sophie Karp

All right. Thank you.

Operator

Our next question comes from David Fishman of Goldman Sachs. Please go ahead.

David Fishman

Hey, good morning.

Jerry Norcia

Good morning.

David Fishman

Just going back to the Haynesville acquisition and thinking about the $600 million of growth CapEx. I was just wondering, and I apologize if you said this on the call a couple weeks ago. But when you think about the $600 million, I know part of its related to the LEAP growth. But is there something that effectively guarantees that growth happening? Or is that just based on your expectation for expansions based on Blue Union and where you think demand will be?

Jerry Norcia

Actually, all of the growth is fully contracted with Indigo. And so the $600 million plus the other $400 million that we talked about approximately about $1 billion is fully contracted growth over the next 18 to 24 months.

David Fishman

Okay. So that's something you already have the contracts in place for and that will be achieved?

Jerry Norcia

Yes. That's correct.

David Fishman

Okay. And then going back to the equity guidance. So I think you discussed this a little bit, but its $1.5 billion to $2 billion, and then $1 billion of that is the convert? And then it says you can do about $300 million internally. Is that – are you able to do that kind of level every year of $200 million to $300 million of equity internally to getting you to around the midpoint or higher end if needed?

Jerry Norcia

Yes, David for the next few years, we should be able to do up $200 million to $300 million, a lot of that is going into funding our pension, which were a few years away from doing that.

David Fishman

Okay. And then my last question, I think, you're alluding a little bit to, I mean, NEXUS, maybe there are some other parties, who are looking to potentially kind of term out those contracts, which is good. But also just thinking about the generation pipeline and connecting there, could you remind us what those contracts, kind of look like or if they're – are they 5 years or are they in the double-digits? And then, also if you were to contract with them, would it likely be the off-taker side or would it be a producer looking into contract on NEXUS?

Jerry Norcia

Well, the generation pipeline, just to remind everyone, is very proximal to the NEXUS pipeline. And it stands on its own, with its own long-term contracts. And it gives us a nice return and nice accretion. The plan is to connect that asset with several miles of pipe to NEXUS. And that will provide approximately 400 million to 500 million a day outlet for that pipeline. But again, just to repeat, we do have long-term contracts, they are about 13 years in length, so very nicely contracted piece of pipe with demand charges.

David Fishman

Okay, great. Thank you. I appreciate it and congrats again.

Operator

Our next question comes from Paul Fremont of Mizuho. Please go ahead.

Anthony Crowdell

Hey, good morning guys. It’s Anthony Crowdell.

Jerry Norcia

Hey, Anthony.

Peter Oleksiak

Good morning, Anthony.

Anthony Crowdell

Hi. You may have addressed this on the actual call maybe two weeks ago. But one is just if you – what makes you confident on the competitiveness of the Haynesville? And then second, just if you could help me understand the difference between minimum volume commitment charges and also with demand charge.

Peter Oleksiak

So let's start with the competitiveness of the Haynesville. We had the opportunity through this transaction to review all 1,700 of their proposed drilling locations. And we did that ourselves along with 2 reserve consultants. And we can tell you, after that analysis, we felt that the resource is extremely strong, whereby there are at least 10 years of drilling available at sub $2 prices. So that's one.

Number two, the pipeline is being constructed, creates great interconnectivity with the Gulf Coast markets, including industrial, power and the emerging LNG markets. And the proximity to those markets provides a very large basis advantage that other resource basins don't enjoy. So we felt that the quality of the resource, the interconnectivity of the resource with growing markets, and three, the positioning of the resource, which provides it with basis advantage, create a really nice package of high returns and strong cash flows.

In terms of MVCs and demand charges they are essentially the same thing. MVCs are monthly demand charges, just that in the gathering business they call it a minimum volume commitment. And in our pipeline businesses, including the pipeline that we're building for this asset, they call it a demand charge. But they are essentially equivalent in nature.

Anthony Crowdell

Great, thanks. Thanks for taking my question.

Peter Oleksiak

Thank you.

Operator

Our next question comes from Gregg Orrill of UBS. Please go ahead.

Gregg Orrill

Yes, thank you. Apologize if you've said this already, but how much are you issuing in new converts related to the acquisition and when?

Peter Oleksiak

Yeah, we'll be issuing approximately $1 billion. And we're going to finalize the exact dollar amount here shortly, but it will be about $1 billion.

Gregg Orrill

And when would that be?

Peter Oleksiak

It will be here in the fourth quarter. We want to close this transaction early December. So we're going to be looking at the market and working conditions, but it will be between now and then.

Gregg Orrill

Thank you, Peter.

Peter Oleksiak

Yeah.

Operator

Our next question comes from Charles Fishman of Morningstar Research. Please go ahead.

Charles Fishman

Good morning. I only have one left. On the P&I segment, I didn't hear you talk or give any update on any industrial projects. I think with the last one you had was the Ford complex? Or is that something you want to wait the EEI for or anything you can talk about now?

Jerry Norcia

We essentially have secured 3 co-gens this year. One we were – two we were public about, Stelco, in Ontario with their Lake Erie Works facility. We signed a long-term arrangement with them to develop a co-gen Facility. And then we also have a commercial customer that we haven't yet disclosed that we signed a purchase agreement with, the purchase at co-gen facility.

And lastly, we signed an operating agreement with Wayne County for their correctional facility to operate their industrial services assets. In addition to that, we also closed two RNG projects in Wisconsin this year. So, three co-gens and two RNG projects, which gives us to be approximately the $15 million origination target that we are pursuing this year.

Charles Fishman

So, I guess, gas price somewhat bearish outlook that people have, that is a little bit of a tailwind for these co-gen projects, correct?

Jerry Norcia

Yeah, there are really two factors. One is the fact that gas prices continue to be at low levels. And secondly, electric rates continue to rise, so the spread between gas and electric to produce power continues to widen and that creates an attractive opportunity for customers that have won a large electric need. And two are usually typically have steam host as well.

Charles Fishman

So it's when a customer has that thermal need is where you see the opportunities?

Jerry Norcia

Yes.

Charles Fishman

Got it. Okay.

Jerry Norcia

There is a high thermal need and a large electricity need. Those two factors make co-gens very attractive.

Charles Fishman

Okay, got it. Thank you.

Operator

Thank you. And now I would like to turn the call back over to Jerry Norcia for any additional or closing remarks.

Jerry Norcia

Well, I'll wrap up by thanking everyone for joining the call. 2019 again is shaping up to be another very successful year. We look forward to seeing many of you at EEI in a few weeks, where we will describe in more detail our growth strategies and our 5-year outlook for each business line.

We'll also describe our financing and dividend strategies in more detail. DTE story will continue to be a strong one into the future that will deliver premium shareholder returns. So thanks again for joining us and have a great day.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.