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CMS Energy's (CMS) CEO Patti Poppe on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-24-19 Earnings Summary

Press Release *Slides*

EPS of $0.73 beats by $0.05 | Revenue of $1.55B (-3.31% Y/Y) misses by $-105.75M

Earning Call Audio

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CMS Energy Corporation (NYSE:CMS) Q3 2019 Earnings Conference Call October 24, 2019 8:30 AM ET

Company Participants

Sri Maddipati – Vice President-Treasury and Investor Relations

Patti Poppe – President and Chief Executive Officer

Rejji Hayes – Executive Vice President and Chief Financial Officer

Conference Call Participants

Andrew Weisel – Scotia Howard Weil

Constantine Lednev – Guggenheim Securities

Michael Weinstein – Credit Suisse

Greg Gordon – Evercore ISI

Julien Dumoulin-Smith – Bank of America Merrill Lynch

Travis Miller – Morningstar

Angie Storozynski – Macquari

David Fishman – Goldman Sachs

Praful Mehta – Citi

Sophie Karp – KeyBanc

Operator

Good morning, everyone, and welcome to the CMS Energy 2019 Third Quarter Results. The earnings news release issued earlier today and the presentation used in this webcast are available on CMS Energy's website in the Investor Relations section. This call is being recorded. After the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time. [Operator Instructions] Just a reminder, there will be a rebroadcast of this conference call today beginning at 12:00 PM Eastern Time running through October 31. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I would like to turn the call over to Mr. Sri Maddipati, Vice President of Treasury and Investor Relations. Please go ahead.

Sri Maddipati

Thanks, Rocco. Good morning, everyone, and thank you for joining us today. With me are Patti Poppe, President and Chief Executive Officer; and Rejji Hayes, Executive Vice President and Chief Financial Officer.

This presentation contains forward-looking statements, which are subject to risks and uncertainties. Please refer to our SEC filings for more information regarding the risks and other factors that could cause our actual results to differ materially. This presentation also includes non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in the appendix and posted on our website.

Now I'll turn the call over to Patti.

Patti Poppe

Thank you, Sri. And thank you, everyone, for joining us on our third quarter earnings call. This morning I'll share our financial results and outlook for the first nine months of the year, I'll introduce our 2020 guidance and review our new 10-year capital plan. Rejji will add more details on our financial results, and of course as always, we'll close with Q&A.

Through the first nine months of the year, we reported adjusted earnings of $1.81 per share. This keeps us on track to meet our year-end guidance of $2.47 to $2.51 per share with a bias to the midpoint. We'll continue to manage the work and adapt to changing conditions in the final quarter of this year as we do every year to deliver the results you expect. We're also introducing our 2020 guidance of $2.53 to $2.68, which is up 6% to 8% from the midpoint of this year's guidance range. As always, we'll update this initial guidance on our year-end call from our 2019 actual results.

We continue to reiterate our long-term adjusted EPS and dividend growth of 6% to 8%. I'm excited to introduce our new $25 billion 10-year capital plan. We've also revised our five-year plan, which reflects our forecasted capital investments from 2019 to 2023 to introduce to include the addition of approximately $600 million of solar investments over this period as approved in our IRP.

This new 10-year plan is the result of a lot of hard work from our teams to come up with the real operating plans that we can execute, including identifying the investments that will drive the highest value for our customers, in both safety and reliability as well as cost. We've identified not only the system needs, but the pacing of the needed engineering, equipment and the personnel to deliver a system that can meet the energy needs of our customers. There is no question that our electric and gas systems need upgrades well beyond normal maintenance, including accelerated electric reliability investments and enhanced infrastructure replacements for gas.

Even though we're planning to invest $25 billion, we know there are more investment opportunities. We continue to plan conservatively based on customer affordability, the level of workforce will need to complete the work and balance sheet constraints. As we execute our plan, we'll look to incorporate more of these opportunities over time. The extent cost management allows, you could see some of that upside rolling into the plan and that $25 billion looking something more like $28 billion to $29 billion of total capital investment. That is what you see on the right side of this slide.

These items are additive to the plan depending on future rate case approvals. Our new 10-year capital plan will help us deliver safe and reliable energy to our customers for years to come, and it couldn't be done without the capital that you all provide. This plan supports our long-term growth objectives and reflects our commitment to deliver for our customers and our investors.

2019 has been a productive and successful year on the regulatory front. The gas rate order demonstrates a high level of alignment with our commission on the amount of investment required to keep our systems safe and reliable. We received over 98% of our requests, which resulted in $6.4 billion of rate base. We plan to file our next gas rate case by the end of this year and our electric rate case in the early part of next year. We'll expect an order in both cases 10 months following those filings as is required by the 2016 energy law.

And now my favorite slide, the story of the month. Our triple bottom line is being noticed by our customers and the communities we serve. There's nothing more gratifying than having our customers recognize our efforts by awarding us the number one JD Power Ranking for residential gas in the Midwest. Our increased investments in the safety and reliability of our gas system, the rollout of our automated gas meter reading to improve the accuracy of our bills, and our application of the CE Way to dramatically improve our first time quality and on time delivery of customer requested service, have all contributed to our movement from the fourth quartile to number one in 2019. It's also worth noting that we have managed to reduce our residential gas bills by over 30% in the five years while making these significant investments.

I was in Battle Creek last week at the Sunrise Rotary Club meeting. And over scrambled eggs and a cup of coffee, I had a chance to chat with the leaders of the Michigan Home Builders Association. They shared with me that they are experiencing the progress our team has made in meeting increasing demand for new services. I'm embarrassed to admit that there was a time just a couple of years ago when we didn't even measure on time delivery, and when we started we were only on time 9% of the time. Now we are up to 95% on time for our three-hour windows. That's not lucky. That's hard work and the application of our CE Way to improve performance that much.

The home builders told me that our timing could not have been better with continuously rising new home service. We're fueling Michigan's prosperity with our delivery of hometown service. It was heartwarming to hear from such an important organization that they noticed and we're thankful for our improvements. We've come a long way and yet so far left to go, but we are proud to be on the top of the Midwest ranking for our gas customers. We are still dissatisfied. We know our customers expect great service and we'll do our part to continually improve their experience.

In addition to our focus on people, we're equally committed to the second leg of our triple bottom line, the planet. To that end, we are proud to announce today that we've established a voluntary net zero methane emissions goal by 2030 for our gas distribution system. To achieve our goal, we'll continue to accelerate the replacement programs we already have in place, protect our assets with increased damage prevention and apply new technologies to identify and eliminate fugitive methane emissions. With these efforts, we can get an 80% methane reduction and to get to net zero by 2030, we're planning to use renewable natural gas as part of our total gas supply.

When we make capital investments in our system, we fully demonstrate our triple bottom line. We serve people, our planet and profit. It is the best long-term business philosophy to fulfill our purpose, world-class performance, delivering hometown service. This triple bottom line has served our model well, and allows us to perform consistently regardless of weather conditions, the economy or other external factors. Our track record demonstrates our ability to deliver consistent, premium results year after year after year. And this year, you can expect the same.

With that, I'll turn the call over to Rejji.

Rejji Hayes

Thank you, Patti, and good morning, everyone. As posted earlier this morning, we reported third quarter net income of $207 million, which translates to $0.73 per share. Our results for the quarter compared favorably to the third quarter of 2018 by $0.14, and as Patti highlighted, keep us on track to meet our financial objectives for the year.

On a year-to-date basis, we have delivered $514 million of adjusted net income, or $1 81 per share. We're just $0.12 per share lower in our financial results over the same period in 2018. This is largely driven by the absence of the favorable weather we experienced in 2018, and the substantial storm activity we experienced throughout the year. As we've been highlighting all year, we planned for back-end loaded 2019, given the timing of our gas rate case and last year's cost flag among other factors. And we remain on track with our plan to achieve our full year EPS guidance. As always, we'll continue to plan conservatively and manage the work to meet our operational and financial objectives, as we have done every year for the past several years.

On Slide 10, you could see that most of the negative variance year-over-year has come from last year's favorable weather rolling off and higher service restoration costs incurred in 2019 attributable to storm. These headwinds have been partially offset by rate relief, net of investments, favorable sales mix, and strong cost performance to achieve your ongoing and planned initiatives such as attrition management, improve productivity via the CE Way and supply chain optimization to name a few.

These anticipated cost control measures have also been supplemented with opportunities, which reflects during the year, such as the deferral of discretionary projects, strong tax planning, timely refinancing in opportunistic assets sales. As always, we adapt to the changing circumstances required and make sure we have adequate levels of risk mitigation in our plan to meet our financial objectives year in-and year-out. As you'll note, our catchall bar in the middle of the page labeled usage, enterprises, taxes and other, highlights $0.02 per share, of favorable variance versus the comparable period in 2018.

During our second quarter call, this bar should $0.15 per share of negative variance to net $0.17 swing has largely been driven by the affirmation factors, which exemplifies our strengths in managing the business as we match unexpected and at times and uncontrollable headlines with positive option. As we look to the fourth quarter, much of the tailwinds we anticipate in the second half of the year will come to fruition, and we remain confident in our ability to meet our EPS guidance for the year.

Our Q4 glide path assumes that the absence of favorable weather in 2018 would more than offset by the substantial reinvestments or pull ahead, that we made in Q4 2018, which equates to $0.15 of net positive variance in 2019. We also anticipate additional $0.13 for rate relief driven favorability with our gas rate case now in the rearview mirror and some modest growth from a non utility businesses. That said, we'll take none of this for granted and we'll approach these last two months of the year with the usual degree of paranoia, by continuing to maintain our cost discipline and flex additional opportunities as needed to deliver the consistent financial results you'll come to expect.

Slide 11 is a great reminder of how we manage the work and capitalize on flex opportunities during the year to deliver for our customers and investors. We've been able to maintain this consistency by being agile and constantly scrubbing our plans for risk and opportunities. In the years, where we have had favor ability, we prioritize reinvestment opportunities in year such as this or you've seen suboptimal weather and higher storm costs. We lean on our ability to manage the work and identify and execute on risk mitigation opportunities into year. At times these opportunities can be episodic like some of the savings we have achieved the past on benefits and tax rate items, and this year is really no different.

We've been using this slide now for the past several years because it epitomizes what we do here at CMS. We anticipate the volatility, which is represented by the curvy blue line and manage that volatility every year to ensure that you, our investors continue to experience the consistent industry leading financial performance, illustrated by the upward sloping linear green line has been our trademark for over a decade now. In short, we do the worrying so you don't have to. This is all made possible by self-funding strategy to pick it on Slide 12. Our focus on cost controls, and proactive risk management to fund our capital investments and mitigate in three year volatility, underpin our simple but unique business model enables us to meet our financial objectives every year.

With a robust backlog of capital investments, we can improve the safety and reliability of our electric and gas systems for our customers while driving earnings growth for our investors. And this growth is largely funded through cost cutting, tax planning, economic development, and modest nonutility contribution, all efforts, which meeting sustainable long run. As such, we are confident that we can continue to improve customers experience to capital investments, while meeting our affordability and environmental targets for many years to come.

As we plan for the future. One of the primary constraints of our long-term capital investment plan will be customer portability, and we have taken this into account in the formulation of our new 10 year capital plan. As we've highlighted in the past, we have substantial cost reduction opportunities throughout our $5 billion plus cost structure through the expiration of high priced power purchase agreements, the gradual retirement of our full fleet, capital enabled savings as we modernize our electric and gas distribution systems.

And lastly, the CE Way which will serve as the key pillar of our cost reduction strategy over time as we eliminate waste throughout the organization. These efforts will provide a sustainable funding strategy for our five and 10 year capital plans which will keep customer bills low on an absolute basis and relative to other household staples in Michigan as depicted in the chart on the right-hand side of Slide 15. But we don't limit our efforts to cost reduction initiatives. Economic development, which is another key element of our self-funding strategy, has proven to be quite fruitful in our service territory largely due to the active nature of our plan.

Over the past three years, we've seen substantial increases in new load commitments in our electric service territory pressing in 2018 with over a 100 megawatts exceed as indicated in the bar chart on Slide 14. This year we're targeting another 100 megawatts and are on track to meet this objective. It is also worth noting that our electric service territory is supported by a diverse customer mix as shown on the right hand side of the slide. And you'll note that the auto industry represents about 2% of our customer rate mix, which we use as a proxy for margin.

Although the strike at GM is top of mind, is worth reminding you that we're not overly exposed to auto manufacturers or their suppliers in our electric service territory. However, we are watching closely for any spillover effects that can impact our residential and commercial customers. At the moment, we're not seeing any notable pullback in key economic indicators. In fact, unemployment in Grand Rapids, the heart of our electric service territory remains well below the national average, and we continue to see robust new construction activity in Western Michigan.

We feel the diversity of our service territory is key to minimizing some of the earnings and operating cash flow often associated with weakening economic conditions. Slide 15 highlights the impact of such sensitivities among others on an annual basis, which most have been mitigated in 2019 given our recent gas order, the accelerated execution of our financing plan, any aforementioned risk mitigation activities which you've reduced the probability of large variances in our plan. Rest assured, we'll continue to monitor these sensitivities as we come down the stretch in 2019, we'll manage the risk accordingly as we do year-in and year-out.

And with that, I'll pass it back to Patti for some concluding remarks before Q&A.

Patti Poppe

Thanks, Rejji. Our investment thesis is compelling and we'll serve our customers, our planet, and our investors for years to come. And with that, Rocco, please open the lines for Q&A.

Question-and-Answer Session

Operator

Thank you very much, Patti. [Operator Instructions] Our first question today comes from Andrew Weisel of Scotia Howard Weil. Please go ahead.

Andrew Weisel

Hey, good morning, everybody.

Rejji Hayes

Good morning, Andrew.

Patti Poppe

Good morning, Andrew.

Andrew Weisel

My first question is, you talked about the future long-term annual growth of 6% to 8%, obviously nothing new there. But is that meant to be apples to apples with the 10-year CapEx plan? In other words, does that mean to go through 2028?

Patti Poppe

We don't give 10-year guidance. We do that on an annual basis and give you a good window looking forward in the near-term. But the 10-year capital plan certainly supports directionally 6% to 8%. And so that's really part of what we're trying to share today, that we've got not just kind of a holding number, but an actual plan for capital investments across the system that will – should lead to our continued performance.

Andrew Weisel

Okay, got it. Next question is in the list of potential sources of upside on Page 5, you don't include renewables there. Is that more a function of demand forecast and not seeing a need? Or is it related to customer bills and affordability? Or is there some other factor there?

Patti Poppe

Well, it's in the base plan. So we know based on our IRP what our 20-year renewable strategy is. We know that we'll own half and purchase half of the new solar 6,000 megawatts in the 20 years, 5,000 megawatts in the 10 years. So that's built into the base plan.

Rejji Hayes

And Andrew, it's also worth reminding that as we've said in our IRP filing, it's going to be about 68 gigawatts per estimate of solar over the next sort of decade plus and we'll own half of that. And so that $4 billion you're seeing attributable through renewables over the 10-year period is a combination of the wind investments we're making for the IRPs, as well as the assumption of owning about half of that solar investment opportunity over the next several years.

Andrew Weisel

It makes sense. Then one last one, this is going to be a little bit of a curve ball question. I noticed you posted a slide that called retail outreach a few weeks ago. Can you please talk about what drove that and maybe what you're trying to accomplish? And then round numbers, what percent of your stock is currently held by retail investors?

Rejji Hayes

Yes. So that was a part of an effort that we did with one of your competitors, Andrew, in the interest of full disclosure. But in essence retail holdings are quite small relative to other utilities. I would say we're about 90-10 versus about 70 to 30 for the sector, institutional versus retail. And the large reason why that is, is as you may recall quite some time ago we suspended our dividend as we were pulling back from sins of the past. And so that really turned over our ownership to skew much more heavily towards the institutional side. And so over time as the fundamentals of the business have improved, we've started to increase our exposure to retail investors and we'll look to do that more going forward.

Andrew Weisel

Very good. Thank you.

Rejji Hayes

Thank you.

Operator

And our next question today comes from Shahriar Pourreza of Guggenheim Securities. Please go ahead.

Constantine Lednev

Hi. Good morning, guys, it's actually Constantine here for Shar.

Patti Poppe

Hey, Constantine.

Constantine Lednev

Hey, guys, good morning. Congratulations on a great quarter and meeting all the estimates. So one quick question on the legislature. There was a set of bills that powering Michigan forward that was introduced, and that's kind of looking at kind of redoing I guess some of the things that were outlined in 2016. Just wanted to get your insight on kind of how does that impact your current IRP and potentially kind of any future IRP planning processes?

Patti Poppe

Well, so there's a couple of good things to know that. Number one, our energy law that we did pass in 2016 was solid, and it created a framework that led to the IRP. The IRP gives three-year forward look for approval. So we have a three-year approval on the elements of the integrated resource plan and our renewable plans in particular. And it was so well received that we think some of these smaller proposals that are part of that package really aren't necessary because we've created this framework for competitive bidding for solar. I think some of the proposals that are on the table are trying to do an end around and they're not getting much traction.

So the good news is the energy law was – had a wide bipartisan support, our integrated resource plan had a wide spectrum of supporters from the Sierra Club to our largest business customers. So there's pretty good alignment with the committee leadership in the house and the Senate that we've got – we've done our work on the legislation on renewables and the energy law that was completed in 2016.

Constantine Lednev

Perfect. That definitely helps out. One kind of small housekeeping item, you started presenting kind of the upside and capital case with this presentation. Just curious, kind of how does that contemplate the long-term kind of equity needs for the business? You mentioned the $150 million per year. There's – does some of these opportunities kind of give a little bit of variability for the $150 million number?

Rejji Hayes

Yes. So what I would suggest, Constantine, is that, we always provide our estimate for equity needs on a rolling annual basis with the update of our five-year plan in Q1 of every year. And so we'll provide any revised thinking around that at least over five-year period in Q1 of next year. But I think there are a lot of variables that go into that math and that's why it's difficult for us to give you a sort of a direct number at this moment. So think about the timing of one will be a federal tax payer, that's a big variable. Obviously, regulatory outcomes over time that will dictate the cost of capital, run rate, CapEx, et cetera, and then customer bill affordability and where that is relative to inflation.

So all of those variables will impact our needs from an equity issuance perspective. Like I'd say, direction, my senses will probably be up a little bit, but we'll see as we continue to flush out our operating plan, our financial plan over the next several years.

Constantine Lednev

Okay, that makes sense. Thanks. I'll come back in queue.

Rejji Hayes

Thanks.

Patti Poppe

Thanks, Constantine.

Operator

And our next question today comes from Michael Weinstein of Credit Suisse. Please go ahead.

Michael Weinstein

Hi, guys.

Patti Poppe

Good morning.

Michael Weinstein

Good morning. Just following up on the last question. Just noticing on the cash flow Slide 23 that your NOLs are increasing over the five-year period and cash flow is up. Is that because – the NOLs, are those increasing or the credits increasing because of the, I guess, higher number or higher amount of renewables in the system? Is that what's driving that?

Rejji Hayes

Hey, Michael, it's more the latter. So we don't see a real increase in the NOLs. And in fact, they were – the NOLs themselves were re-measured upon tax reform going into effect when the bill was enacted in the late 2017. But we do see some accretion in the credits that we have because of the renewable investments we've been making, both for the RPS. And over time we may see a little bit more increase in credits as well as we take on solar investments. So there's more to do with the renewable efforts than any accretion in NOLs.

Michael Weinstein

And does that accrue to the benefit more as a customer or I mean, does this offset equity needs going forward? Just curious.

Rejji Hayes

I would say based on what's on the page, it's more the latter, it offsets equity needs. But keep in mind, just based on the way in which we've structured the RFPs for the sole investments, we'll actually see, because we're doing build and transfers as well as competitively bid out PPAs for the 6 gigawatts over time, we'll see the benefits of tax credits incorporated into the cost we have to pay for the investments as well as the contracts we'll take on and that will directly benefit the customers. So you'll see it benefit for both sort of a cash flow capital raising needs as well as customer benefits.

Michael Weinstein

Okay, great. Thank you.

Rejji Hayes

Thank you.

Operator

And our next question today comes from Greg Gordon of Evercore ISI. Please go ahead.

Greg Gordon

Hey, thanks. Good morning.

Rejji Hayes

Good morning, Greg.

Patti Poppe

Good morning, Greg.

Greg Gordon

So – if my memory serves me correctly, the integrated resource plan, the $25 billion in capital, there's no capital in there for any additional fossil fuel generation, correct?

Patti Poppe

Correct.

Greg Gordon

So, on the margin, all your investment in power generation will be renewables. And as I also recall, I think I asked you this on the last quarterly call, battery storage is not a significant portion of that because you have such a big position in Ludington.

Patti Poppe

Yes. A couple of things, in the future plan, we will obviously be maintaining our current fossil plan. So we'll still have gas plants. Our two gas plants will still be on the system up through 2040. They don't have ongoing capital maintenance plans. Campbell 3 will be in operation until 2039 and that has obvious ongoing capital plan. So there's capital associated with fossil, just no new fossil generation plants as we described.

The other point on battery storage, Greg, I think it's really interesting our first IRP that we filed had 450 megawatts of storage in the latter part of the plan. But as we're preparing to file again as we'll re-file our IRP every three to five years, we're filing again here in 2021, we'll file another IRP, we're seeing that storage prices are dropping enough that we'll probably see more storage and the mix in our next IRP, which I think is exciting.

When you combine the amount of solar and wind that we'll have on our system, it's going to be very beneficial to have cost-effective solar both from people talk about storage as a means of dispatching those renewables, but think about all those distributed solar panels. They're going to need voltage control, and so we're going to need storage associated with those just specifically for grid stability and reliability, not just for dispatchability. So I do see that more and more storage will be part of our plan, especially as our price drops. And that's all captured, those additional storage dollars will be captured in the electric ops portion of the CapEx plan.

Greg Gordon

Fantastic. When you look at the amount of money that you plan on spending in the gas utility, when you think about the migration away from fossil fuels, I mean, are we seeing – it's sort of – there's some dissonance a little bit, right? I mean, you're seeing cities like Los Angeles and other cities out in Los – in California has started to move to actually try to eliminate incremental use of natural gas for any type of infrastructure. So as you look at your 10-year plan and you talked to the policy makers in Michigan, are you – is there a potential for a similar trend in gas infrastructure over time?

Patti Poppe

Well, I would say this. Natural gas has been a big part of Michigan's heating seasons. I think these – a lot of the cities that you're seeing with moratoriums on natural gas don't have natural gas penetration for home heating and water heating like Michigan does. And so given that when we're looking at the cost comparison for electrifying all the home heating needs, the cost to customers would be significant. And so, given that cost impact, we don't think there's going to be a big market push or demand from customers to make that switch to electrification. So in our gas planning, we assume that our – we have modest assumptions about growth, we have more assumptions just about replacing like for like systems, making sure our systems are safe, making sure that that aging infrastructure can deliver the volume of natural gas that we move today on the coldest winter day. So that's really how we see the role of natural gas.

I will also say though that to your point about the pressure from environmental community in general on gas, it is in what's in the spirit of our methane net zero plan for 2030 and why we were excited to announce that today. We can see the use of RNG in the natural gas system to minimize the kind of emissions and help to mitigate the environmental pressures. Our triple bottom line doesn't just apply to the electric side of the business. It applies to the gas part of the business too.

Greg Gordon

Thanks, Patti. Have a great day.

Patti Poppe

Yes, thanks, Greg.

Operator

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

Julien Dumoulin-Smith

Hey, good morning, team.

Rejji Hayes

Good morning.

Patti Poppe

Good morning, Julien.

Julien Dumoulin-Smith

Hey, howdy. So perhaps just to go back, if I can rehash a little bit of the 5-year versus 10-year update here, seems like the five-year piece is pretty hit there with the renewable piece. The three quarters is equal to the $600 million in the RFP. Just not to be pedantic about it, but it seems like it's the same. And then separately, can you give us a little bit more about the 25 to the 29 delta that you talk about in the upside opportunities? What would drive those if you – if that might be the best way to ask it?

Patti Poppe

Yes. So first on your first question…

Julien Dumoulin-Smith

What are those?

Patti Poppe

Yes. The five-year plan is exactly as you've described, the incremental capital is for the renewables associated with the IRP, which we had indicated we would add when we had approval. And then – and the 10-year plan, those upsides, we've said it over and over again, there's so much work to be done on this system. We are trying to make sure that all factors are considered before we build out that capital plan. And that's what, I mean, I think some people, you could argue it's easy to throw a number out on a 10-year capital plan. I want you to understand that our capital plan that we are presenting today is a real plan. We actually have a 10-year gas plan drawn up that shows the needs for the system and what year we would do what. And so the basis for this capital plan effect is affected by our ability to complete the work, our balance sheet capacity and customer affordability. That 10-year plan, the $25 billion as described affects customers' bills by about 2.2% over per year.

We're going to be looking for additional improvements and when we find additional headroom that can fund additional capital debts, what will be the trigger to add these additional capital investments. But all three of those factors matter a lot. And so we're always optimizing around them. Does that help? Is that what you're asking?

Julien Dumoulin-Smith

Yes. Well, maybe if I can push a little bit further, I suppose the electric reliability or gas description, is that triggered by, maybe to go back to Greg's question a little bit more, is that triggered by a customer side of the equation or is it just generally, again, the ability to have a customer headroom that continue to push forward on just broadly upgrading the company?

Patti Poppe

I'd say headroom is our biggest constraint, customer affordability, of course, balance sheet and ability to fund that plan is important to us too. We – look, the needs of the system far exceed our customer's ability to pay. And so we are constantly looking for ways that we can do more for less. So we apply the CE Way to our capital work as well as our O&M work and try and get lower our unit costs or more volume of work can be done. We're also looking obviously at workforce constraints and making sure that we've got adequate people plans to do all this work. So there's a variety of factors that that mitigate adding in the additional capital, but trust me, the needs of the system demands those dollars and so we're constantly working for ways to get those included in the plan. Fortunately, we have time window to get that done.

Julien Dumoulin-Smith

Yes, indeed. All right, good luck. See you soon.

Patti Poppe

Thanks, Julien.

Julien Dumoulin-Smith

And our next question today comes from Stephen Byrne of Morgan Stanley. Please go ahead.

Stephen Byrne

Good morning, and congrats on the JD Power results.

Patti Poppe

Thanks, Stephen.

Rejji Hayes

Thanks, Stephen.

Stephen Byrne

Most of my questions have been addressed. I just wanted to go back to the upside opportunities that you've laid out on Slide 5. In terms of just regulatory construct or other dynamics, I just want to make sure I'm not missing anything incremental or sort of different that you would need from a regulatory perspective. In your remarks, Patti, you mentioned, it's really just dependent on rate case approvals, but was there anything else in terms of from a regulatory or design point of view, from a regulatory point of view that you would – that you would need to achieve?

Patti Poppe

No, I mean, I think we have to remain aligned with our commission and the staff. They have a job to do. Their job is to make sure that we are prudently investing in the system to provide the service that customers expect. Now, hopefully it helps them do their job when we are – when our customers are satisfied with our performance as indicated in the JD Power results. We've got the lowest complaints to the Public Service Commission ever. As a result of many of the improvements we made on the system. We try and make it easy for the Commission to say yes, but they really have – they're important check and balance in the process to make sure that the dollars that we are investing in this system are invested prudently and that they are in the best interest of customers.

And I think in our most recent gas case, we got a good indicator from the Commission that they agree with our plan. They agree with the amount of infrastructure that we're putting on the system and they agree the importance of keeping certainly our gas systems safe and reliable and our electric system to be modernized and reducing our carbon emissions and increasing reliability for customers every day. So it is a partnership with the Commission to make sure that we're doing everything we can do in these capital investments. And so that takes annual rate proceedings as we file and we get a routine feedback from the commission about our plans.

Rejji Hayes

So Steven, the one thing I would add is that, needless to say, we plan conservatively and so we presuppose the existing rate construct. But needless to say, if we could get more traction on tractors, investment recovery mechanisms and vehicles like that. It could certainly increase the likelihood that we could take on more of these upside opportunities. So clearly we'll continue that dialogue with the commission and staff over time.

Stephen Byrne

That all makes sense. And then just shifting over to renewables, we discussed the IRP and just generally a plan. I want it to just drill in a little bit more on regulatory approval to rate base half of the investments. Could you just remind us sort of where we stand from a regulatory approval process in terms of just solidifying that capability over many years to come?

Patti Poppe

Yes. So again, we – the IRP has a three year forward-looking formal approval, but the settlement that we had signed with all those parties that the commission approved really gave a good indication of the construct for making determinations for new additional capacity, specifically renewables. So the 50-50 ownership construct was agreed to buy a wide group of parties, which to me gives indication that will likely continue over time. However, as we file the each IRP, obviously there'll be discussion about extending that framework. What our fundamental belief is, that having competitively bid solar on an annual RFP, we set the lowest cost possible for our customers for new renewables.

That creates, in some cases where the ownership lies with someone else. And we earn our financial compensation mechanism on top of that PPA. We still then create headroom for investments in the distribution system, which I believe in the long run is where our greatest demand for capital is going to be. Modernizing our electric distribution system is going to be the cause of the next decade. Both just replacing poles and conductor to new resiliency standards, but also modernizing and making that grid so much smarter to handle distributed resources and demand management tools. So I would suggest that the construct is in place so will be re-reviewed. Obviously every time we do a new IRP filing.

Stephen Byrne

That makes sense. Thanks so much.

Rejji Hayes

Yes. You're welcome. Thanks, Stephen. See you soon.

Operator

And our next question today comes from Travis Miller of Morningstar. Please go ahead.

Travis Miller

Good morning. Thank you.

Rejji Hayes

Good morning, Travis.

Patti Poppe

Good morning, Travis.

Travis Miller

Wondering just real quick on the 2020 EPS. It looks like you've got a lot of the regulatory uncertainty locked in or at least not there anymore for the year. What are some of the sensitivities there? Is it weather and O&M typical like that? Or is there something else in the regulatory wise?

Rejji Hayes

Yes, I would say it was a fairly straightforward glide path for 2020 EPS, Travis. I think you highlighted the key driver, which will be rate relief, net of investments. And so if you think about the gas rate order we just received, about two-thirds of that will flow into 2020. And so if you just think about the math to that, there's about a $100 million of revenue increase that flows into 2020, and the tax effect that and we've been doing all that puts and takes on investment-related cost. You ended with about net $0.14 or so, and that basically gets your right to the low end of guidance for next year. And so then you and puts and takes, we always assume normal weather and there will be variability we can count on that, good or bad and so we'll see where we'll end up. But I think that coupled with the usual contribution of the nonutility businesses should lead us to get to our 2020 EPS guidance range, without a lot of, I'll say additional items that are unforeseen.

Travis Miller

Okay, great. Yes. And then question on that Slide 20, where you have the five-year CapEx line, that new renewables line, that's just incremental, right? So there's still some renewables in the electric utility spending. Is that the correct way to read that?

Rejji Hayes

No. So that line item, new renewables, that's a combination of the renewable spend to get to the 15% RPS by 2021. So you've got the wind investments in there and then it starts to take on in the latter portion of that five -year period, some of the solar related investments to the IRP. So that is all the utility – that is all the renewable-related spend that the utility in that line item there. Just over this five-year period from 2019 to 2023.

Travis Miller

Okay. Okay. And that stuff would be in the rate base?

Rejji Hayes

Correct.

Travis Miller

Okay. And just real quick on the solar that you guys are talking about, six to eight gigawatts and the potential for growth there, what's your kind of split there between utility scale and distributed generation. Is that all utility scale or how do you see that potentially evolving between distributed generation or top solar and utility scale?

Patti Poppe

Yes. We think the economics of utility scale are in the best interest of all customers. Now we do have residential programs that are run by the utility. They're like community solar sorts of programs so if utility scale that a customer can buy a plot if he will. There will be some residential distributed solar that customers want to invest themselves in private power generation. And so we have a program within the state to allow that to happen. But our plan is built around utility scale because we know that's the best price and most cost effective means of transitioning from fossil fuels to renewable energy.

Travis Miller

Okay, great.

Rejji Hayes

Thank you.

Operator

And our next question today comes from Angie Storozynski of Macquari. Please go ahead.

Angie Storozynski

Good morning. Thanks for taking my question. I really have only one bigger picture question. So do you have any near term plans what to do with the bank and DIG? I mean, Rejji, you mentioned that there could be some slight uptick in your equity needs? Would you look at these assets as a way to maybe fulfill those equity needs?

Patti Poppe

Yes. We have no news on EnerBank. There's nothing has changed as we've said for the last several years. There's no change for EnerBank. It plays a particular role in our plan and continues to do.

Rejji Hayes

Angie, I would just say for the enterprise because you asked about DIG. We continue to do that business. It's heavily contracted not just DIG but all the other assets we have there. And it's a fairly de-risked business. And so we continue to count on it on our five-year plan to give us a pretty steady stream of earnings in cash flow contribution next four or five years so we don't anticipate any dispositions there either.

Patti Poppe

We've done a couple small projects as you may be aware of enterprises for renewables, very customer driven, opportunistic for example, 100 plus megawatt wind farm for General Motors in Ohio. We have often customers come to us and say, can you help me make my renewable targets? And so in those cases, enterprises can play that role as well, both in Michigan and out of Michigan.

Angie Storozynski

Very good. That's all I have. Thank you.

Rejji Hayes

Great. Thanks, Angie.

Operator

And our next question today comes from David Fishman of Goldman Sachs. Please go ahead.

David Fishman

Hi, good morning.

Patti Poppe

Good morning, David.

Rejji Hayes

Hey, David.

David Fishman

Good morning. I just had a quick question on – just the detail maybe we'll be getting in the future on the 10-year plan. Back in 2017, at the Investor Day, you kind of outline a little more detail around the gas infrastructure, electric distribution and plan investments. Is that something that we can expect maybe over the next 12-months or so or maybe following a little bit more detail on the gas side once you have the infrastructure investment plan there filed?

Rejji Hayes

Yes. So I would say that, this level of detail which we actually think for a capital investment program, looking at 10 years is quite good. We don't intend to provide a great deal more granularity. But you can look for is that we will make some regulatory filings, I'll say in the coming months that do give pretty explicit guidelines around types of investment we'll make both in our gas business and over time our electric distribution business. And that's where you'll get the additional detail.

And so, currently the $25 billion, the split between the utility, electric and gas as well as the renewable investments and then specifics around, again, a 10-year glide path for capital investments for gas. Again, all of that will be provided to our regulators over time through voluntary filings. And so you'll get more details there, but we don't intend to provide nearly the same level of granularity on this 10-year program as we have on an annual basis in our five-year programs. And so I think as you look at the updates on an annual basis in our rolling five year plan, you'll get more color on the outer years of this 10-year plan over time. Does that make sense, David?

David Fishman

Yes, that does make sense. Thanks, Rejji. And I think earlier, you're asking a question or you're answering a question and you mentioned upside from trackers as one of the potential outcomes there. I know this has been talking about a 2020 outcome, but longer term along with more detailed filings that you're putting out is the expectation kind of file along with the IRP, there's opportunities there for incremental trackers?

Rejji Hayes

Yes. We'd like to think that any event we can get more traction on those types of mechanisms that would facilitate our ability to start to take on some more of those upside opportunities because then you really get to minimize the lag between cost and currency and cost recovery. But we've clearly demonstrated that, we're going to make sure that we call before we walk in Michigan in that regard. And so with each filing we'll look at whether it makes sense to apply those types of mechanisms to various programs and if we think it's applicable and can get a good alignment with the commission and staff, we'll look to do more of that over time. But I think it's going to be a measured pace.

Patti Poppe

Well. I'll just echo Rejji's point here, and say that our annual filing standard has worked pretty well for us. It actually allows us to be more adaptive to changing conditions around where our priorities around capital spend like vary from year-to-year. We do have forward-looking tests years, so we get good visibility and approval – preapproval for the capital that we spend. We do also benefit by passing our customers benefit by us being able to pass along annual savings that we realize to them in those annual rate cases.

So we don't object to the annual rate case methods, but certainly IRMs in long-term plans that the commission has requested in gas and electric, and our IRP does give all of us a better ability to plan, have alignment, have better visibility, long-term work and investment, which is a basis for our 10-year capital plan. And then that allows for us to plan, obviously for the workforce that will complete all of that work. So what's really important is that we have good alignment with the commission on the work that needs to be done. And then the regulatory mechanisms can work pretty well for us.

David Fishman

Great. Thanks. That makes lot of sense. Congratulations again, and congrats on the JD Power award.

Rejji Hayes

Thank you.

Operator

Our next question today comes from Praful Mehta of Citi. Please go ahead.

Praful Mehta

Hi guys, thanks so much.

Rejji Hayes

Thanks, Praful.

Patti Poppe

Thanks, Praful.

Praful Mehta

Hi. So maybe first from storage. Actually, very interesting you mentioned the storage costs. If you could just give us a little bit more color on how you've seen the storage costs come down and where it sits today. And secondly, what is the storage installation coming along with it? It's coming along with renewables on the utility scale side or DG or both. Some perspective on that will be very helpful?

Patti Poppe

Yes, Praful. A couple of things. We did our IRP and we did the modeling, we modeled battery storage at about a $1,000 a kilowatt, over that by the latter part of the IRP when we would be installing the 450 megawatts. However, I'll tell you current costs are as high as $2,000 a kilowatt. So that's still pretty high and out of the market. Now the ITC when storage is combined with solar, that obviously gives you that 30% kicker, which is nice and helps make storage prices lower combined with a solar. And I've heard some rumblings in Washington DC that maybe they would do a storage only ITC. I think there's a lot of interest and appetite.

What I think is, going to be a bigger driver to the cost curves on storage are really the automakers commitment to emission free vehicles and the amount of R&D that is occurring and the dollars, the billions of dollars being spent by the automakers and consortiums and suppliers to them to crack the code on an electric vehicle or fuel cells. I think will bode well and provide benefits then to the electric industry to be able to utilize that storage technology in the R&D that's happening in that space. So I would expect that those prices will continue to drop. They're not in the market right now, but we're doing pilots and projects, so we can learn, so that we can be ready when that technology cost curve really starts to materialize.

Praful Mehta

Got you. That's super helpful. And is that installation as you planned in the IRP more with the DG, utility-scale or both?

Patti Poppe

Yes, mainly the utility-scale on the grid as a balancing resource. But I would suggest that our next IRP is going to have a different combination and we're not done with the modeling yet, but early indicators show that we'll have more distributed batteries as well as utility scale storage to make our renewables more dispatchable.

Praful Mehta

Got you. Thanks. And then Rejji, just from, cash and equity perspective, I know you mentioned that the equity number could move a little bit. I just wanted to clarify what you meant by that $150 million moving a little bit, what's the final driver and what timeframe are you thinking about for that move?

Rejji Hayes

Yes. If you look at the run rate capital investment we have now over our five-year plan, we're doing about $2.25 billion. And so that we think again, it can allow us to do that comfortably within our ATM program of about $150 million per year starting in 2020 through this five-year period. Now over time, as you think about the quantum of this 10-year plan, where we could be at a run rate of $2.5 billion, and if we start to dip into those upside opportunities, it could expand on an annual basis. And so it could go up directionally, but it's difficult to get more precise in that problem, because again, there are a number of factors that dictate your equity needs. And so when will be a federal cash tax payer? And so at the moment, we think 2024, but that could change, because we thought five years ago that would be a federal taxpayer down when we're not.

And so that's a big variable, regulatory outcomes is clearly a big variable. And then customer affordability and our trends there relative to inflation. And so all those variables will impact the amount of equity we need to issue per year. And so absent that visibility, it's tough to say how much more it will go up. But again, we'll obviously manage the balance sheet prudently as we have over time and we'll see, where the equity needs end up. But I don't think materially, you'll see a big rise in the sort of next couple of years if that's what you're asking.

Praful Mehta

Yes. That's exactly what I was going. All right. That's super helpful. Really appreciate it guys and congrats again. Thanks.

Rejji Hayes

Thanks.

Patti Poppe

Thanks.

Operator

And then our next question from Sophie Karp of KeyBanc. Please go ahead.

Sophie Karp

Hi, good morning.

Rejji Hayes

Good morning.

Patti Poppe

Good morning.

Sophie Karp

Thank you for taking my question and congrats on a great quarter. So, my first question is you had that really strong quarter and you maintained your guidance, I guess. Is there anything specific that I'm giving you guys some caution maybe in Q4 as it evolves or has it just been conservative?

Patti Poppe

Yes. We feel good about our year-end guidance has indicated bias to the midpoint as we have consistently said. And like every year, every quarter, there are changes that come at us and we – we pull back the curtain here and share a little bit on these calls about the kinds of things that we're managing the ups and downs, the goods with the bads, but we are on plan. We feel good about that plan and we ride that roller coaster and we enjoy it. We enjoy riding the roller coaster, so that you don't have to. We want to deliver that nice green line that Rejji mentioned in his prepared remarks that is our promise and that's what we continue to work to do every day. And that's what is so much fun about running this business is that we get to manage all those ups and downs and we feel real good about the plan and where we are for the rest of the year.

Sophie Karp

Great. And then maybe, a bigger picture question. You show on your slides that the customer bills decline and will stay in that maybe relatively flat versus the inflation over the long-term. And I guess if we look back, a lot of that has come from a lower commodity price and then the low interest rates and things like that, right. And so as you move in your fuel mix and your incremental generation is mostly renewables to where that's no longer going to be the case. How do you expect, I guess is it going to be a challenge to manage its customer bill with this new and evolving generation mix?

Patti Poppe

No. in fact, it's definitely in line with creating the headroom necessary, the replacement of fuel – the elimination of fuel expense is a huge benefit. And keep in mind; we're particularly and uniquely positioned, because of these large PPAs, on which we do not earn. We're going to be transitioning away from those PPAs, which are out of the market today. So, our customers are paying a high price for them. We're going to transition to renewable energies with no fuel costs and more competitive pricing on which we earn. And so it's the best combination for our commitment to the triple bottom line. We're excited about where the future takes us on all of that. It's directionally aligned with all of the savings we've achieved to date.

Sophie Karp

Thank you.

Patti Poppe

Yes. Thank you.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Patti Poppe for any closing remarks.

Patti Poppe

Thanks, Rocco. Thank you everyone for joining us on the call today and we look forward to seeing many of you at EEI. We'll be able to go into more detail on the capital plan and we look forward to sharing more stories about all of the exciting things happening at CMS Energy. See you soon.

Operator

Thank you, ma'am. This concludes today's conference. We thank everyone for your participation. You may now disconnect your lines.