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DTE - Q3 2012 DTE Energy Company Earnings Conference Call

EVENT DATE/TIME: OCTOBER 24, 2012 / 1:00PM GMT

## OVERVIEW:

DTE reported 3Q12 operating EPS of \$1.31. Expects 2012 operating EPS to be \$3.80-4.00.



## CORPORATE PARTICIPANTS

**Dave Meador** *DTE Energy Company - EVP, CFO*

**Peter Oleksiak** *DTE Energy Company - VP, Controller*

**Dan Brudzynski** *DTE Energy Company - VP & Treasurer*

**Don Stanczak** *DTE Energy Company - Director, Regulatory Affairs*

## CONFERENCE CALL PARTICIPANTS

**Mark Barnett** *Morningstar - Analyst*

**Carolyn Boone** *Deutsche Bank - Analyst*

**Nas Kumwalla** - *Analyst*

**Brian Chin** *Citigroup - Analyst*

**Andy Weisel** *Macquarie Capital Securities - Analyst*

**Andy Levi** *Avon Capital/Millennium Partners - Analyst*

**Timothy Yee** *KeyBanc Capital Markets - Analyst*

**Kevin Fallon** *SIR Capital Management - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the DTE Energy third-quarter 2012 earnings release conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Dave Meador. Please go ahead, sir.

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### Dave Meador - DTE Energy Company - EVP, CFO

Thank you, and good morning, everybody, and thank you for joining us. Just to start off here, welcome to our third quarter call. As we are getting started, I encourage you to read the Safe Harbor statement page 2 of the document, including the reference to our forward-looking statements.

Turning to slide 3, with me this morning are Peter Oleksiak, our Senior Vice President of Finance; and Dan Brudzynski, who is our recently appointed Vice President and Treasurer. If you recall, Dan was the Vice President of Regulatory Affairs and, before that, Controller, and now is back in finance, in the Treasury role. And then Mark Rolling, our director of investor relations. I also have members of the management team with me, if needed, during the Q&A session.

Turning to slide 4, this morning we are going to cover our third quarter results and give you an update on our outlook for the remainder of this year. We will also be at EEI, which is a little over two weeks away, where we will provide additional details on our growth plans.

Let's turn to slide 5. Our investment thesis summarizes how we think about growing the business and delivering value to our shareholders. We have a disciplined plan that provides 5% to 6% long-term earnings per share growth. And if you combine that with our current annualized dividend of \$2.48 per share, we deliver a total shareholder return of 9% to 10%. And as always, this is all underpinned with one of our key priorities of maintaining a strong balance sheet.

We have solid growth plans at both of our utilities. At Detroit Edison, that growth is driven primarily by environmental mandates in the form of emission controls and renewable energy. And in MichCon, the growth is driven by infrastructure, investments including cast iron main replacements and a program to move gas meters outside of customers' homes.



Here in Michigan, our utilities operate in a constructive regulatory environment which is supported by solid legislation that was passed in 2008. We believe our responsibility is to earn that construct every day. We utilize our continuous improvement capabilities and everything we do to control costs, to minimize rate increases and to improve the quality of service that we provide our customers.

On the Non-utility side of the business, we continue to capitalize on the growth opportunities we see in our Gas Storage and Pipeline segment and the Power and Industrial business.

Turning to slide 6 is an overview for the quarter. Our operating earnings for the third quarter came in at \$1.31 per share compared to \$1.07 per share in the third quarter of last year. With three quarters of the year now behind us, including the summer cooling season at Detroit Edison, we are confident in narrowing the earnings guidance to \$3.80 to \$4 per share and at the same time increasing the midpoint by \$0.10 to \$3.90. Like much of the Midwest, the last two summers here in Michigan were warmer than normal but, during the third quarter of last year, the revenue decoupler at Detroit Edison has covered weather, so we didn't see the earnings benefit last year. Now, with the elimination of the decoupling mechanism at Detroit Edison in April this year, we see the impact of this summer's warm weather flowing to the bottom line.

MichCon, which typically has an operating loss in the third quarter, saw the benefit of higher transportation and storage revenue along with lower O&M cost, and this resulted in a small operating income for the quarter.

Earnings at the Power and Industrial Projects were up over the third quarter of last year as the REF business line continues to ramp up. And the combination of some unique trading opportunities in last year's third quarter and a tough market condition this year resulted in lower quarter-over-quarter earnings at Energy Trading. Peter will take you through additional details on the third quarter results for each business line in a few minutes.

Our balance sheet remains strong, and we generated \$1.7 billion in cash from operations through the third quarter of the year. In fact, the results and the strong cash performance are coming on so strong that we are increasing our cash flow guidance for 2012, and Dan will take you through both cash flows and capital spending in greater detail, in a few slides.

We have been talking to you about our intent to exit the E&P business, and late last year we laid out our plan to prove up an oil formation in the Barnett acreage, referred to as the Marble Falls. We have been a front-runner in this newly emerging oil bridge formation which is located just above the Barnett Shale. We completed our drilling plan for the year and we're making good progress towards full monetization of these assets. We opened our data room in early September, and the bids are due at the end of this week. So we will be able to keep you posted on our progress and give you an update at EEI in a couple of weeks.

Now, if I can shift to growth areas of the Company, we are making substantial investments in renewable energy at Detroit Edison. If you look at the wind generation that we already have online and the investments that we are making, including the PPAs that are underway, we will soon have 700 megawatts of renewable energy capacity. This is nearly 8.5%, which is well on our way to meeting the renewable energy standard in Michigan, which is 10% by 2015, which we believe is a good standard and a sensible approach to renewable energy in Michigan.

On the nonutility side of the business, we are excited about the growth potential surrounding both the gas and midstream assets that we have in the Marcellus Shale region. Our first major growth project is the Bluestone Lateral and Gathering System, and that's moving along nicely. We have secured all the permits and right of ways, and construction is underway as we speak. We expect to have a lateral pipe in service by the end of the year. And additionally, the gathering system will support our anchor tenant, Southwestern Energy, as they continue to drill wells ahead of that lateral being put in service.

More recently, we announced a new proposed pipeline in the Utica Shale. This pipe would be developed jointly with Enbridge and Spectra to move gas from the Utica Shale to markets in Ohio, Michigan and Ontario, Canada. This would originate in Northeast Ohio and travel into Michigan, where it would interconnect with the Vector Pipeline, which provides access also into Ontario. It would be a 250-mile large-diameter pipe and capable of moving at least 1 BCF of gas a day. The initial investment is estimated to be \$1.5 billion, and our share would be a third, or \$500 million. We are currently running an open season on this proposed pipe, and that would run through the end of November. We will work with interested parties to establish binding agreements in the first half of next year. And if the timing goes as planned, that pipe would go into service in early 2016.



We expect these new projects to provide substantial growth in earnings and help take the Gas Storage and Pipelines business from \$60 million in earnings this year to \$100 million in earnings by 2015. In the P&I segment, we are seeing good operational performance and throughput at our five sited REF machines. If you remember, there's nine in total. And we are making good progress in siting the remaining four. In fact, one of the four began commercial operations at a non-DTE site earlier this week and we have executed agreements with another utility to relocate a unit at one of their sites. We are also engaged in advanced discussions with several other potential host sites for the remaining two machines, so we're making good progress there.

On the earnings call last quarter, I announced that we were acquiring a portfolio of on-site energy projects from Duke Energy for a little over \$200 million. As of last week, we closed on 12 of the 14 projects and expect to close on remaining two sometime next month. Going forward, we see these projects contributing to our growth aspiration for the Power and Industrial projects from \$50 million in earnings this year to \$125 million by 2016.

Now, if we can turn to page 7, I would like to shift gears and give you an update on some developments on the regulatory front. MichCon is in the midst of a general rate case that was filed in April. At the end of September, we filed testimony with the Michigan Public Service Commission to self-implement up to \$34 million beginning in November. This case will continue to play out over the next several months with a final decision no later than April of next year. At Detroit Edison, we were successful in reaching a constructive outcome related to the termination of the revenue decoupling mechanism and the related \$127 million regulatory liability.

As you might recall, back in April, the Michigan Court of Appeals issued a decision that the MPSC exceeded its authority when it ordered Detroit Edison to adopt a revenue decoupling mechanism. Through the first quarter of 2012, Detroit Edison had accrued a \$127 million liability related to the pilot RDM, which represents hot weather primarily in prior years 2010 and 2011. Rather than taking the full \$127 million into income upon the Court of Appeals decision, we filed an accounting application seeking authority to amortize that amount into income in 2014. The accounting treatment, combined with other cost saving actions, would help offset the need for new rates in 2014 and is a key component of our plan to potentially push out the need for base rate increases until 2015. On September 25, the MPSC issued an order granting our request.

Now turning to slide 8, I would like to provide an update on our 2012 earnings guidance. With three quarters of the year behind us, including a warmer than normal summer, we are confident in narrowing and raising our earnings per share guidance for the year. At Detroit Edison, the weather favorability not only allows us to increase our earnings guidance but also provides an opportunity for us to reinvest in our electric system to improve the distribution system and power plant reliability. This includes things like line clearance and preventive maintenance to the distribution system, power plants and our vehicle fleet.

The outlook for MichCon has improved as well. You may recall that the unusually warm winter created quite a hole in MichCon in the first quarter, and we begin signaling that they would have to work really hard to hit even the bottom end of the range of their guidance. As a result of some one-time cost reduction actions that the team implemented, are confident in reaffirming MichCon's earnings guidance of \$110 million to \$115 million.

The storage and transportation revenue at the Gas Storage and Pipeline segments are coming in strong, pushing guidance for this segment to a point estimate now of \$60 million. Finally, Energy Trading continues to see fewer opportunities in a challenging and choppy market. So from where we stand now, we think the guidance range of \$10 million to \$25 million is appropriate, which includes approximately \$10 million of after-tax roll-on that we expect to show up in the fourth quarter.

So in total, we are confident in raising the midpoint of our earnings per share guidance to \$3.90 with the range of \$3.80 to \$4 per share. With that, I'll pass it over to Peter, who will take you through some additional details on the quarter.

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

Thanks, Dave, and good morning, everyone. I would like to start on page 10 and third-quarter earnings results for the quarter. DTE's operating earnings per share was \$1.31. Detroit Edison contributed \$1.13, and MichCon, which typically occurs an operating loss this quarter actually came in \$0.02 positive income. And I will talk about more of that coming up.



The nonutility segments combined to earn \$0.22. The drivers of the nonutility second-quarter results were Power and Industrial at \$0.13, Gas Storage and Pipelines at \$0.08, Energy Trading at \$0.01 and, finally, Corporate and Other had a loss of \$0.06 in the quarter.

Let's move to slide 11, a summary of the quarter reported performance by segment. Operating earnings for consolidated DTE Energy are up \$44 million in the quarter, or \$0.24 per share. Detroit Edison's operating earnings was \$194 million, up \$37 million from the prior year. The favorable year-over-year performance was driven by warmer than normal weather flowing this year through earnings. Last year, a revenue decoupling mechanism was in effect, w temperature normalized revenues.

We continue to see stability and underlying load at our Electric segment with temperature-normalized sales flat in the quarter net of a 1% impact of an energy efficiency program reduction. Service territory industrial sales continue to grow, up 3% year to date. As noted earlier, the third quarter is typically a loss for our seasonal Gas Utility business. However, MichCon had an operating gain of \$4 million for the quarter, up \$15 million from prior year. The improvement to earnings was driven by higher transportation and storage service revenues, along with lower loss gas expense in the quarter and lower O&M.

This quarter is a clear demonstration that our continuous improvement efforts are paying off at MichCon. For example, the improvement in lost gas expense this quarter is a direct result of improvements in reducing physical losses through a series of operational improvements and system interconnects, improvements in metering technology and a step up in distribution reliability investments.

Our nonutility segments are down \$8 million in total, primarily driven by our Energy Trading segment, partially offset by higher earnings at the three other segments. Energy Trading is down \$21 million in this quarter year over year. The year-over-year results are driven by a combination of a stronger than normal third quarter 2011 and a larger portion of this year's economic performance subject to accounting timing. For your reference, we provided our standard year-to-date economic to accounting earnings walks for the segment in the appendix, which shows the economic earnings in 2012 versus 2011.

Another driver in the quarter-over-quarter performance is the Power and Industrial Projects segment, which was up \$10 million. This is driven primarily by the growth in our REF business line. Unconventional gas production improved earnings \$2 million, breaking even in the quarter. The improvement was driven by higher oil production; our production is up actually 97% year-over-year. As Dave mentioned, we are in the final strokes of a targeted year-end sales process for those properties.

Finally, the Gas Storage and Pipeline segment was up \$1 million for the quarter to \$14 million and, like MichCon, benefited from higher storage and transportation revenue.

That concludes an update on the earnings for the quarter, and I will turn discussion over to our Treasurer, Dan Brudzynski, who will cover cash flow and capital expenditures.

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**Dan Brudzynski** - *DTE Energy Company - VP & Treasurer*

Thank you, Peter, and good morning, everyone. Before I begin, let me say it's good to be back here within finance at DTE, and I look forward to working closer with all of you on this call in the future. As I take over from our prior Treasurer, Nick Khouri, our commitment to cash flow and prudent balance sheet management remains as strong as ever.

Now turning to slide 13 and year-to-date cash flow and capital spending, 2012 cash flows were up, driven by increased cash recovery at the utilities, primarily related to the PSCR and the choice tracker regulatory recovery mechanisms in 2012 and an early 2011 cash pension contribution. This was slightly offset for the year by higher corporate tax payments. Capital spending is slightly higher in 2012 due to our investments in the Bluestone Pipeline, as David mentioned, and higher base operating capital at the utilities, slightly offset by some lower renewables investment, a reminder that 2011 includes some large investments in our Gratiot wind park, which has since been placed into service.

Now moving on to slide 14 and the outlook for the year, we are raising our guidance for cash from operations to \$2.2 billion, driven by warm summer weather. Again, we plan for the year at weather normal levels, and the impact of the RDM court ruling at Detroit Edison. Our original

guidance at the beginning of the year assumed the decoupling balances would begin to be refunded to customers this year. And as Dave mentioned earlier, the RDM amortization will begin in 2014. In addition, cash at our nonutility businesses is also expected to be higher in 2012. Capital spending is projected to be higher also. You will see that detailed to the right on this slide, where nonutility investments are up as a result of the acquisition of on-site energy project portfolio from Duke Energy within our Power and Industrial group this October.

We also anticipate a slight remixing of CapEx at Detroit Edison but still yielding roughly a total of \$1.2 billion.

Finally, finishing up with a look at the balance sheet and our credit metrics on slide 15, leverage and FFO to debt remain well within our targeted ranges. Liquidity is strong and our rating agency outlooks are positive. We have issued \$160 million in equity year-to-date into our pension and benefit program for the year. And now, for the third quarter wrap-up, it's back over to you, Dave.

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Thanks, Dan. As we laid out for you, the results through the first three quarters are very solid. With the benefit of favorable summer weather, we are able to reinvest in our electric generation and distribution systems and confidently raise the midpoint of our earnings guidance per share by \$0.10. Setting aside the unusual weather this year which is providing upside at Detroit Edison and pressure at MichCon, on a temperature normal basis, both utilities are on track to earn their authorized returns. Longer-term, the utility growth plans are underpinned by mandated environmental-related investments, and we are also seeing nice growth opportunities at the nonutility businesses.

When you put this all together, they combined to provide an overall long-term earnings growth or share of 5% to 6%. And as we indicated, we always do this by maintaining a strong balance sheet and solid cash flows. We will be at EEL in a little over two weeks, as I mentioned, and we hope to get a chance to see many of you there. For those of you not going to EEL, you can tune into Gerry Anderson's presentation via the webcast Tuesday morning, which is at 9.45 AM Mountain time, and that's 11.45 AM, for those of you in the Eastern time zone. You will be able to join that webcast through our investor section on our website.

And now we would be happy to take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions) Mark Barnett, Morningstar.

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**Mark Barnett** - *Morningstar - Analyst*

Just a couple of quick things -- with the RDM gone, what is the likelihood that you look to address volumetric changes through some other alternative mechanism?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

It's possible down the road. As we've indicated, our approach and strategy right now is to stay out of rate cases for multiple years. So if everything works out well, we would not be filing a rate case until 2014 for 2015 base rate changes.

In the meantime, though, and you can certainly check this out with CMS in a couple of days, they have filed a rate case where they have proposed a mechanism to basically address what you're talking about. So we will watch that rate case go through. And I think there is some openness to dealing with some of the volume changes especially that might come through in between rate cases relative to energy efficiency.



**Mark Barnett** - Morningstar - Analyst

And with that, should you proposed such a filing, that wouldn't require a full base rate case, though? Is that correct?

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**Dave Meador** - DTE Energy Company - EVP, CFO

Don, do you want to take that question? Don Stanczak is our Director of Regulatory Affairs.

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**Don Stanczak** - DTE Energy Company - Director, Regulatory Affairs

No. Typically, if you're looking to implement any kind of tracker, it has to happen within a rate case.

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**Mark Barnett** - Morningstar - Analyst

All right, that's helpful. And just one more item, it's a small thing, but can you give a little bit of detail on what was driving your stronger transportation and storage results, given that many of your peers have felt some significant pressure on those businesses so far this year?

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

I think it was a combination. The storage was really, you know, with the -- a lot of the natural gas here in the region and really finding a home for that storage. So we were seeing on a short-term basis some favorable margins and took advantage of that, both in our MichCon and our GSP segment.

On the transportation, actually, our Millennium Pipeline is benefiting from that Marcellus Shale production, and we are seeing that in the results of (multiple speakers) pipeline.

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**Mark Barnett** - Morningstar - Analyst

Okay, thanks.

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**Operator**

Carolyn Boone, Deutsche Bank.

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**Carolyn Boone** - Deutsche Bank - Analyst

You had said on the Q2 earnings call that storm expense would offset maybe about half of the weather benefit in July. Could you quantify what that was for the quarter?

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

Yes. Quarter overall had a \$50 million weather impact. So the storm expense -- actually, we had that first storm in the -- July. Actually, from then, we didn't really have a lot of catastrophic storms. Actually, year-over-year, if you look at it, storm expense is down on a year-over-year basis. So we did see most of that margin favorability flow through.

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

So that was -- if you go back to that second quarter call, we were only into really a month of the quarter, and at that time we just had come through a pretty bad storm in July. But as the rest of the quarter played out, there was margin favorability way beyond that storm. So the storm offsetting half of the margin improvement is not accurate. It turned out to be a lot less than that for the quarter.

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**Carolyn Boone** - *Deutsche Bank - Analyst*

Okay, great, thank you.

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**Operator**

[Nas Kumwalla].

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**Nas Kumwalla** -- *Analyst*

Just a quick question for you all -- if you don't mind, what base are you using for the 5% to 6% growth rate?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

You should, when you are looking at forward years, use our original guidance of \$3.80 per share.

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**Nas Kumwalla** -- *Analyst*

Okay, so not on the new midpoint of the new 2012 range?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

No, no. One way to think about it is what we are seeing in this uptick is primarily weather, which is not normal weather. So -- that you are seeing coming through at Detroit Edison. So on a forward-looking basis, the right grounding point is \$3.80.

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**Nas Kumwalla** -- *Analyst*

Understood. And then I think you had said -- and sorry if I missed this in the prepared remarks -- but that some of the weather was -- you did a reinvestment of O&M?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Yes.

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**Nas Kumwalla** -- *Analyst*

How much is that, and then how much --? So on an ongoing basis, what level of O&M should we expect?

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

Right now, we're looking at investing probably around \$20 million to \$30 million of O&M back into businesses. Early on, when we saw the weather impact swing the other way at the first quarter, actually we put some continuous improvement in one-time cost actions. So absolute O&M probably will be up around \$20 million, but we are targeting probably closer to \$30 million from our reinvestment. And it really is one-time type of investments, kind of shoring up from our distribution systems, our power plant reliability sort of expenditures.

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**Nas Kumwalla** - - Analyst

Yes, no, that makes sense.

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

Yes.

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**Nas Kumwalla** - - Analyst

And then if you can talk about over the summer, did you see, given the hot weather, with all your generation running, assuming there was no differentiation due to gas prices or anything?

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**Dave Meador** - DTE Energy Company - EVP, CFO

No, no. In Michigan, or even in the Midwest, there's very, very little gas switching capability. As a matter of fact, in MISO, if you look at it on a capacity basis, it's even under 10% of the capacity in MISO as -- can switch to gas. So the coal plants run predominantly all out because we don't have that capability.

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

And actually, our coal plants are having a good year from a reliability standpoint.

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**Nas Kumwalla** - - Analyst

Okay, great, yes that makes sense. Thank you very much, I appreciate it.

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**Operator**

(Operator instructions) Brian Chin, Citi.

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**Brian Chin** - Citigroup - Analyst

On slide 14 for Detroit Edison, the capital expenditure guidance numbers have moved around a little bit between environmental and renewables. Can you just talk about that a little bit? And then also, just a longer-term CapEx story for 2013 and 2014 -- is that going to be given out at EEL, or what is your thought about giving a little bit longer-term view on CapEx?



**Dave Meador** - *DTE Energy Company - EVP, CFO*

First, on the capital, what's playing out in the renewables is we accelerated some of our renewable spend because we were, like many, were looking at the potential for extension of PTCs and trying to watch for in-service dates. And at the same time, we were also getting great opportunities on the procurement side. So there was a conscious decision there to pull ahead some of the spending.

And on the environmental, what is playing out there is the success that we are experiencing on the DSI testing. If you recall, at the DSI testing, we said that it turned out to be much more successful than we thought and it's causing us to shift some of our capital spending over several years. And we will lay that out at EEI when we lay out our capital for multiple years. We will give you that in several weeks. But what you will see, it's going to allow us to make some DSI-related investments in the next couple years and defer some of what we would have thought we would have been doing on scrubbers on some of our plants, and that will play out in the capital numbers that we will show you.

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**Brian Chin** - *Citigroup - Analyst*

Great, thank you very much.

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**Operator**

Andy Weisel, Macquarie Capital.

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**Andy Weisel** - *Macquarie Capital Securities - Analyst*

In terms of weather-adjusted load growth, if I heard correctly, it was about 1% of a negative impact from energy efficiency. So the total number from the supplemental slides here show flat year-over-year load growth. It's a little bit lighter than I was expecting. Can you give a little bit more commentary? We see the macro data on auto sales and things like that. Can you just talk a bit more about what you're seeing and what your expectations are for the next few years?

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**Peter Oleksiak** - *DTE Energy Company - VP, Controller*

First, let's talk about the macro indicators. We look at unemployment. Actually, at this time last year, unemployment was 1% higher. So we've seen a 1% decline in unemployment. Housing starts is another key indicator, up about 50%, so seeing some strong housing starts. And as you mentioned, from the auto sales on an annualized basis, they have recently just come out with their numbers and they are at 14.9 million units. So we really haven't seen those levels probably for 5 to 6 years. So all indications are real strong from an economic indicator.

On the residentials, on a year-to-date, temperature normalized were flat. Typically for that segment, we will see about a 1% to 2% estimate on energy efficiency. So one way to think about it -- we have growth, organic growth happening there that is offset by energy efficiency.

The other segment we really monitor from an economic perspective is the Industrial. We are seeing a 3% growth there year-over-year. And we are seeing strength in the autos and the steel segments.

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**Andy Weisel** - *Macquarie Capital Securities - Analyst*

Okay, so do you have any thoughts as far as what you are expecting for, say, 2013 or the next few years in terms of weather-adjusted load growth?

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**Peter Oleksiak** - *DTE Energy Company - VP, Controller*

We are anticipating probably close to about a 1% growth, net-net of energy efficiency.



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**Andy Weisel** - *Macquarie Capital Securities - Analyst*

Okay, so meeting plus 2%, minus 1%?

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**Peter Oleksiak** - *DTE Energy Company - VP, Controller*

That's correct.

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**Andy Weisel** - *Macquarie Capital Securities - Analyst*

Okay, great. And then my only other question -- the lowered expectations for the trading business -- how should we think about the longer-term run rate of earnings contribution? I know it's very difficult to predict and it's volatile, but should we be taking down numbers from -- I believe the prior guidance was about \$40 million as the a rate.

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Will give you our early outlook at EEI in a couple weeks, but what you are seeing in this year and I think generally what you're going to see going forward is we want to plan conservatively for that group. We still are not wavering from our 5% to 6% earnings growth projections. But it's a group that, whether I do guidance or I'm doing it internally, I don't push them on earnings because I don't want to change the risk profile of that business under any circumstances.

So we plan conservatively. And at the same time, we're going to hit our 5% to 6% growth numbers. And we will outline that by business segment at EEI for you.

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**Andy Weisel** - *Macquarie Capital Securities - Analyst*

Great, thanks a lot. I guess we have a lot to look forward to at EEI.

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**Operator**

Andy Levi, Avon Capital.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

I think most of my questions were answered. So I guess weather-normalized guidance, just to understand, would have been like \$3.65 to \$3.85, so we backed out about \$0.15 for year-to-date weather. Is that the way to look at?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

I don't know that I have that at our fingertips, but you can take that excess whether and back that out.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

It was about like \$25 million, right? Or something like that? I think it was, okay.



**Dave Meador** - *DTE Energy Company - EVP, CFO*

Right. The other thing that's happening here, as we talked about, was O&M. We are trying to be very flexible in how we operate the Company to work around weather. So the first half of the year we were pressing hard down on O&M. Now we find ourselves in a situation where we are reinvesting in O&M, and that's directly related to weather. So I wouldn't be doing that otherwise. So you have to net that all together.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

Okay, then relative to the Barnett Shale sale and the need for no need for equity, again, I'm sure it will be something that will be discussed at EEI. But can you give us an idea for 2013 -- are you not going to need any equity in 2013? Is that the way to look at it?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Well, our base plan that we've laid out hasn't changed. We are going to be spending significant amounts of capital over the next several years, and we are still projecting that on average it's about \$300 million a year of equity that we would do through our benefit plans and through the pension plan.

We are working our way through the Barnett sale. It's all real time right now. And as you know, we have a placeholder that we've put in our sources and uses for \$300 million, and it's reasonable to say that if we got significantly over \$300 million, that would put less pressure on the need to issue equity. And we will be able to update you at EEI. I don't know that we will be far enough through the sale process, but as that plays out -- we are going to lay out a base number on equity for next year. And again, whether Barnett sale comes in very healthy or we find other investment opportunities, we would be wiggling the equity number. But at the end of the day, our goal is not to be doing a public issuance and to do this through the benefit programs.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

Okay, and on the Gas Pipeline segment, I just want to make sure that I heard that correctly, you said you will be at \$100 million by the end of 2015, not 2016?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

It's 2016.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

Oh, it's 2016?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Is our goal.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

Okay, because I thought you had said 2015 with the new investment with NEXUS. Okay, so it's 2016. I misheard; I apologize.

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Right. And NEXUS, just to be clear that it's a proposed pipeline. And right now the projections, looking at everything that we would have to do, including FERC approval and so on, is that pipe would go into service at the beginning of 2016. So that would be the first year that you actually, if everything works out according to schedule, that you would actually see an earnings impact from NEXUS.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

Okay, which is in line with what you have said in the past. I just -- I thought I heard 2015.

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Alright, okay.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

So I thought it was (multiple speakers).

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Okay.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

And then last question is, and this, again, may have to wait for EEI -- so the only kind of -- blemish is too strong a word, but obviously the Trading segment didn't meet expectations this year, and obviously it's the one part of your business that's not predictable. How should we think about that for 2013, or does that need to wait for EEI?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

I think we should just wait. As we've said before, that this is not part of our growth story, and we had went through a period where, on average, the earnings and cash flow was about \$50 million a year. And we are going through a period right now where it's \$20 million to \$30 million a year and we are okay with that and still being able to hit our growth objectives.

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**Andy Levi** - *Avon Capital/Millennium Partners - Analyst*

Okay. Well, thank you guys. I will look forward to seeing you. And as always, you are doing a great job.

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**Operator**

Timothy Yee, KeyBanc Capital Markets.

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**Timothy Yee** - KeyBanc Capital Markets - Analyst

Just two quick questions -- do you think it's still possible to have the remaining two REF machines sited and operational by year end, or might that go into early 2013?

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**Dave Meador** - DTE Energy Company - EVP, CFO

Right now, based on where we are, it's going to slip into the beginning of 2013.

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**Timothy Yee** - KeyBanc Capital Markets - Analyst

Okay, and then could you just discuss a little more on this 25 x 25/Proposal 3 ballot, and then how that is tracking and how that might play out in Michigan?

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**Dave Meador** - DTE Energy Company - EVP, CFO

Sure. Thanks for the question, because we feel pretty strongly about this, that it's a terrible thing from a public policy standpoint, that we don't think this is good for Michigan, the state of Michigan, it's not good for our customers. And we certainly don't want out-of-state groups coming into Michigan and hijacking our Constitution. So the business community, if you look at the Michigan Chamber, the Detroit Regional Chamber, the Michigan Manufacturers Association and the State of Michigan, they are all very aligned in the opposition to defeat this proposal, and that's our intent, to defeat the proposal. So we're working hard right now. And the polling data is showing that the more the people learn about this and the vagueness of how it's written, that the support for this continues to go down every day as we speak.

So right now, we are focused on defeating it. And obviously, if it passes, we can talk more about the implications of that down the road. But I hope I don't have to talk about it after the election.

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**Timothy Yee** - KeyBanc Capital Markets - Analyst

Okay, that's great, thank you, I appreciate it.

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**Operator**

(Operator instructions) Kevin Fallon, SIR Capital Management.

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**Kevin Fallon** - SIR Capital Management - Analyst

I had a question for you on the O&M levels at Detroit Edison for this quarter. It looks like they are actually down in 3Q 2012 versus 3Q 2011. I was wondering why that was.

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**Peter Oleksiak** - DTE Energy Company - VP, Controller

Really, if you look at the quarter, we were talking earlier about storm costs where we did see a storm early in the quarter, and it was pretty quiet after that. Actually, storm costs this year versus last year were about \$20 million less this year versus last year.

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**Kevin Fallon** - *SIR Capital Management - Analyst*

Okay, and for modeling purposes going forward, should we look at the authorized ROE for Detroit Edison as the target for where you guys should come in, or as the floor?

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Our goal is to consistently earn our authorized. That doesn't mean that we won't slightly under-earn or slightly over-earn. But I think from your standpoint, the way you should view this is it's a company whose objective is to constantly earn its authorized. Because of the way renewable energy works and energy efficiency works here under the law, there's a slight uptick on over-authorized that we can still earn. So, for example, at Detroit Edison, where the authorized is 10.5, we actually have the ability with those two other mechanisms to earn 10.6, as an example. So there will be slightly over-earning before that, and I also think that we can work within a bandwidth around authorized. But my goal is not to wildly over-earn in any year because we don't think that's the right thing to do in running these businesses.

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**Kevin Fallon** - *SIR Capital Management - Analyst*

Okay, and finally, on the MichCon rate case, with the self implementation of the \$34 million, do you need to get the commission to vote on that, or can you guys just do that as planned on November 1?

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**Don Stanczak** - *DTE Energy Company - Director, Regulatory Affairs*

We can just self implement. In the past, the commission has issued orders on self-implementation, but they have not thus far in the MichCon case. So if they don't issue an order, we can just self-implement on November 1.

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**Kevin Fallon** - *SIR Capital Management - Analyst*

Great, thank you very much.

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**Operator**

And, Mr. Meador, we have no further questions in the queue at this time.

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**Dave Meador** - *DTE Energy Company - EVP, CFO*

Okay. Thank you, and I appreciate everyone's involvement today and the great questions you have. And we look forward to seeing you at EEI. Thanks again.

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**Operator**

This does conclude today's conference. Thank you for your participation.

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