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DTE - Q4 2011 DTE Energy Company Earnings Conference Call

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OVERVIEW:

DTE reported 2011 operating EPS of \$3.73. Expect 2012 operating earnings of \$650m at the midpoint of guidance or \$3.80 per share.



CORPORATE PARTICIPANTS

Dave Meador *DTE Energy Company - EVP and CFO*

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Paul Patterson *Glenrock Associates - Analyst*

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PRESENTATION

Operator

Good day, everyone, and welcome to the DTE Energy year-end 2011 earnings release conference call. Today's conference is being recorded. At this time I would like to turn the call over to Mr. Dave Meador. Please go ahead, sir.

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

Thanks, Dana. I apologize for that music while you were on hold there. We'll get a better selection next time. But good morning, everybody. This is Dave Meador and welcome to our 2011 year-end earnings call.

Before we get started, I would like to remind you to read the Safe Harbor statement on page two, including the reference to the forward-looking statements.

And with us this morning is Gerry Anderson, our Chairman, President, and CEO; Peter Oleksiak, our Vice President and Controller; Nick Khouri, our Vice President and Treasurer; and Mark Rolling, our Director of Investor Relations. We also have members of the management team with us to call on during the Q&A session if needed.

With that opening, I will turn the call over to Gerry.

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

Thank you, Dave. Good morning to all of you. Thanks for being here with us. I want to start the call by saying that I feel really good about what DTE Energy accomplished in 2011 and that's true on almost every front. As you've probably already seen, our earnings for last year finished well ahead of our plan and our most recent guidance and our cash flow and balance sheet results were strong for the year as well. So 2011 continued a string of solid earnings and cash flow results for the Company in recent years.

But our performance is about a lot more than financial results and in fact I believe it's only by focusing on a lot of things outside of your financial results that your earnings picture has a chance to be strong and sustainable long-term.

So I spent a lot of time with my leadership team focused on a system of interconnected priorities that I believe are the things we need to be very good at consistently in order to make our recent strong financial performance sustain long-term. There are a lot of companies who produce strong



financial performance short-term or for a few years but the trick is to make that sustain long-term. And a lot of discussion here and a lot of focus on how to make that happen.

The system of priorities that we are using to do that is shown on slide five and I'll start by saying I realize that slide five may look like a lot of boxes and arrows to you but it really is how we are thinking about managing DTE Energy for the long term.

So I want to take a little bit of time describing that system to you and then telling you about the progress we have made against it.

In the priority start on the left side with what I call kind of the kingpin or key priority, which is highly engaged employees and the bottom line is you can't have an excellent company that outperforms if your employees' focus and engagement and energy level is average. So we really do spend a lot of time trying to build the energy engagement and focus of our people.

If you pull that off, then you have a chance at the next three things, which is to deliver really good service to your customers and improve that over time; to use a tool that we have spent a lot of time developing here at DTE Energy, continuous improvement, in order to manage the quality and affordability of your products; and also to have your people drive creative growth and value creation.

If you do those three things well, then I think you have a shot at sustaining a constructive political and regulatory context because if your customers are well served, they are all voters and they shape the political arena. If you don't keep your costs in line by constantly working on affordability, that eventually finds its way into the political and regulatory discussion.

It's also true that if you can pursue constructive productive growth and that helps from an economic development standpoint in the state, it shapes the political and regulatory context. And if you combine a good regulatory context with solid growth, then you have the formula for sustainable financial performance.

So in terms of how we are progressing against these priorities, slide six steps into that. On the employee engagement front, we use something called the Gallup Survey; thousands of US companies do use that. 2011 was the fifth consecutive year that our Gallup score increased. We are now in the 71st percentile of US companies. So that's a good thing, although we have a clear goal of wanting to take that up into the top decile or top 10%.

We also are continuing to improve our safety performance, another important employee outcome. Our injury rate is down 70% since mid-2000s. Got both of our utilities performing at top quartile level. In fact, MichCon has been at top decile level in recent years.

Continuous improvement is something that we work every year to push deeper into the organization through education and familiarization and practice. As a result, our O&M expense level was lower last year than in 2005. We project it will be lower again in 2012 than it was back in 2005. That's about \$350 million on an inflation-adjusted basis.

But it isn't only costs, obviously. We're working to focus that CI on reliability and other important operating metrics.

From a customer satisfaction standpoint, our MPSC complaints are down over 50% over the past five years. We have a target of bringing that down 10% to 15% year in, year out. 2011 also saw improvement in our J.D. Power customer satisfaction rankings at both utilities and that's the fifth year in a row that we have seen that.

MichCon came in first quartile. Detroit Edison wasn't that high. They were both medium but not at first quartile, but they did improve. We also put a lot of work into our work on behalf of low-income customers here in the state.

Moving on to slide seven on the regulatory and political front, I think when we step back from it, the outcome that we had in the Detroit Edison rate case late last year was constructive. The ROE did come down. We had hoped for a little higher outcome there but when you take the case overall, I think we've got a base that is constructive to work from and we did continue to see solid and broad political support for the regulatory structure here in the state that was put in place now about four years ago.



On the growth front, we saw our first major wind project at Detroit Edison. We put about \$0.25 billion into that. I'll talk about that a little bit later. We also made significant progress on two new non-utility growth platforms, our Bluestone project, related to the Marcellus in Pennsylvania, and our reduced emission fuel business line. Again I will talk about those two items a little bit later.

Finally on the financial front, kind of the outcome of all of the work that I just described, our earnings were \$3.73. EPS was \$3.73 compared to our original guidance a year ago of \$3.55. So we had a nice outperform there. Did earn our ROE at Detroit Edison for the second straight year. MichCon was off slightly on its ROE principally due to warm weather that we and everybody else saw in November or December last year.

And we did increase our dividend 5% last year to \$2.35 a share.

So I feel we made good progress last year. I also feel good about our launch point for 2012 and I feel good about our longer-term growth prospects, which is where I want to turn now.

And I will move to slide nine to do that. You can see on slide nine that we have provided guidance for 2012 of \$3.80. That's \$0.05 higher than the early outlook that we provided back in November. If you compare that \$3.80 to the guidance that we provided a year ago, which was \$3.55, it's up 7%.

In fact if you look at the bottom of the slide, you can see that our growth in recent years has been right at about the 7% level and we are projecting a future growth of 5% to 6%. We often get asked 5% or 6% from what base? We want to be clear that the 5% or 6% is from the midpoint of our 2012 guidance. So it's from that \$3.80 level.

Let me talk for a minute about where that growth would come from starting with Detroit Edison on slide 10. Detroit Edison will invest about \$6.5 billion over the next five years we project. About \$4 billion of that on the left side will be put into base infrastructure which is our investments to ensure the reliability of our generation fleet and our distribution systems. 2012, we will be just under \$800 million in that area.

We also have significant expenditures continuing in environmental compliance. You can see that we have ranged that from \$1.3 billion to \$1.8 billion for the next five years. And the range is simply because we're still finalizing our plans and as you know, the EPA does continue to evolve regulations and so we may see some changes in the five-year period that we don't fully understand now. We will put a little over \$250 million into that area in 2012.

And then on nonrenewable energy, we project just under \$1 billion of investment to meet the RPS environments here in Michigan. We will put \$235 million into that arena in 2012. And in fact, slide 11 provides a bit more detail on our renewable investments because this is an area that has really emerged over the past year.

You see in the left-hand side of slide 11, our first large investment in wind and that's a 212 megawatt project that will be fully operational by March. We've pursued this 50-50 with Invenergy and all of our turbines -- we have 64 of the turbines on the site -- are in fact up and operational. We invested about \$250 million into that project.

The right-hand side shows you the project we are currently in the midst of. This will be 110 megawatts at three sites in what we call the thumb area of Michigan and we project that will be completed by the end of this year and again, we will put on the order of \$250 million into that project. That one is -- work began on that last year and will -- a little bit out of the market right now due to weather but we will be back at it soon.

And following that we do have in our sights the next project, which is also 110 megawatt project on the order of \$250 million of investment that would likely play out in the 2013 to early 2014 timeframe in terms of completion.

Moving on to slide 12 for MichCon, we project that we will invest about \$1 billion over the next five years. About two-thirds of that in base capital focused on strengthening and expanding the distribution system, pipeline integrity and so forth. Put just over \$150 million into that area this year.

The other two areas that we are working are both programmatic. One of them is Main renewal. We are undertaking a program to replace 670 miles of main over the next 10 years. That's about \$0.5 billion investment over the 10-year period. And that's really focused primarily on a cast-iron main that has just reached end-of-life and needs to be replaced.

We do plan to file for a capital recovery mechanism or a surcharge mechanism in our upcoming rate case for MichCon and we are coordinating that carefully with the Public Service Commission. We will spend about \$40 million in this area this year.

We also are pursuing a meter move-out program. We still have meters inside homes in our older urban areas and we are going to be moving about 27,000 meters per year out. We need to do that. Customer service is impacted too much by having these inside, so we and the commission have agreed it's time to get them outside and we will invest \$20 million to that end this year.

We also have some healthy growth opportunities in our nonutility businesses and those are -- a discussion of that starts on slide 13. The two areas where our strongest growth opportunities are focused is in our gas storage and pipeline business and our power and industrial business. Gas storage and pipelines is profiled on the left. It's about a \$60 million business today but we do believe it can reach \$100 million by 2016 and that expansion is driven heavily by investments that are tied to the Marcellus shale and the Millennium pipeline and some of the things that we're working. I will describe more of that in a minute.

On the right-hand side is the power and industrial earnings profile. It's about a \$50 million business this year. That's the midpoint of our guidance for 2012. We believe it can grow to about \$100 million business or actually above \$100 million by 2016. Most of that growth would be driven by our reduced emissions fuel business at least in the near term.

Slide 14 provides more color on our gas storage and pipeline opportunities. In the upper left, we have talked to you previously about the Bluestone pipeline and the associated gathering systems. Bluestone is a lateral off of our Millennium pipe. It's really focused on taking Marcellus gas to market. For us it will total about \$280 million in investment in the pipe itself and in a gathering that we're going to undertake.

We are heavily in the works of making that pipe real right now; permitting and right-of-way are well along and ramping up. This pipe is going to be built in two phases, a Northern phase and a Southern phase. Our construction on Phase 1 will begin soon. We expect to happen in service this summer. And then Phase 2 will follow and be in service late this year.

This activity and other developments nearby are driving expansions on the Millennium pipe described in the green, shown in the green in the box on the upper right. This pipe is full. It was really full at the end of last year. We saw all sorts of activity moving gas in both directions on this pipe just trying to get Marcellus production to market.

We have two expansions of the pipe blocked in. Those will result in a 50% increase in the capacity of the pipe. The first expansion coming into play this year and the second next year.

But in addition to these investments, we are working on additional future opportunities as well. The Bluestone is anchored by Southwestern Energy but we have been approached by other producers with lease holdings that are adjacent to Bluestone. Several of those discussions we expect will continue and eventually progress into additional gas being moved on Bluestone, and an additional investment for us.

We also continue to work on extensions of the Millennium pipeline, extensions and expansions, to provide greater access to the Northeast market for Marcellus production and we are optimistic that we will make projects of that nature happen as well.

Slide 15 provides an update on the second area of significant growth in our nonutility businesses. The reduced emission fuel business within that business line is within our power and industrial business. On the left-hand side of slide 15, you see where we stood at year-end 2011. We had three units in service at Detroit Edison plants, two that we had sited at other plants with utilities in the Midwest, and had four units available for relocation and siting with other utilities.



Our earnings contribution last year was under \$5 million and that's low because three of the units that we had in operation by end of year were only an operation for weeks. They came on line quite late in the year. Those units also had for example six months of depreciation even though they operated for only a few weeks, so that impacted the earnings.

If you look to this year in the middle of the slide, our focus is on making those five units that we have sited and in operation operate very, very well. We are also working on relocating the remaining four units and we are in discussions with a number of other utilities to that end and we expect the earnings contribution to go up to the \$30 million level.

Then looking out in 2013 and beyond, we expect to have all nine units in operation with an average annual contribution moving forward of \$50 million or so. That would be the level we would expect in 2013, could drift up some there from -- because these tax credits do inflate over time. But that's a general feel for the level that we see right now for that business.

And with that, I am going to turn things over to Dave Meador, who's going to give you a fuller update on our financials. Dave, over to you.

Dave Meador - DTE Energy Company - EVP and CFO

Great. Thanks, Gerry. I will go through the financial updates starting on slide 17. Operating earnings for 2011 came in strong at \$3.73 per share and would like to remind you that a reconciliation to our GAAP reported earnings is contained in the appendix.

Starting on the left-hand side, Detroit Edison came in higher than our fall EEI updated guidance and earned \$2.60 per share. This was driven by ongoing cost control, the partial year rate increase that we had last year, and then favorability driven by a one-time year-end tax adjustment. For the second year in a row, Detroit Edison earned its authorized return on equity.

MichCon came in at \$0.65 per share. This is at the low end of the guidance and slightly below our targeted 11% return on equity levels. MichCon was on track for almost the entire year due to ongoing cost controls, but mild weather got us at the end of the year and caused a slight miss there.

In the Non-Utility Group, gas storage pipelines earned \$0.34 per share. This was better than guidance and was driven by higher volumes on the pipelines in the fourth quarter.

Power & Industrial finished the year in the high end of the guidance range. This was a transition year for the group and they had several projects deliver higher-than-expected returns and some one-time items.

Energy Trading finished up strong for the year at \$0.31 and as you might recall, Trading posted solid earnings through the third quarter. We saw that performance continue throughout the remainder of the year. This was aided by favorable timing from contracts that were executed at the beginning of 2011 and also success in both the Power and Gas trading part of the business.

As Gerry indicated, the total year was not only higher than our original guidance of \$3.55 which we projected our 5% to 6% growth off of, but it was also higher than the last guidance that we provided at the fall EEI and I would like to congratulate all of the employees at DTE Energy for another great year on many fronts including the things that Gerry covered but also our financial performance.

Turning to slide 18, Gerry talked about our distinctive capability we're building in the continuous improvement area and it's really the way we approach our work. While we're still building this capability in the Company and we feel that we have many more opportunities ahead of us, we are actually getting some really nice results as you can see on this slide.

Over the last seven years, we've driven \$350 million in cost savings to the bottom line and we do this because we owe it to our customers to keep rates as low as possible but also it has given us the flexibility to achieve our financial goals. And we do this without compromising on our ability to improve customer experience or our operational metrics.

Turning to slide 19, although both utilities are revenue-decoupled, we watch the local economy very closely. We have said that we see economic recovery in our region and that is going to be slow with a tail on it but we are certainly seeing continued signs of positive economic health.

As you know, Ford and GM and Chrysler have significantly restructured their cost profile and now they are very profitable at much lower volumes. For example, General Motors this morning announced that they earned \$7.6 billion last year and many expect that they will earn \$10 billion the year going forward.

All three US automakers are profitable and US sales volumes are at about 13 million units, which is down from the 17 million annual sales levels before the 2008 recession.

On this slide in the upper left you can see that Michigan's unemployment has improved dramatically from a high of 14% two years ago to now under 10%. On the bottom left, you can see the Michigan auto production numbers are up 67% from the trough in 2009. And on the right-hand side, is Detroit Edison load, which is up also since 2009. Adjusted for the impacts of energy efficiency, we're expecting load to increase another 1% to 2% in 2012.

On slide 20 is our updated guidance for 2012. We're taking the midpoint of our guidance up from the early outlook that we provided last year to \$3.80 a share, which is a 7% increase over the 2011 guidance of \$3.55 that we provided this time last year.

Let me do a quick walk down the chart here. Detroit Edison's guidance of \$438 million to \$448 million which is the same outlook we provided at the EEI fall conference. The key drivers of the 2012 guidance to the prior year are the lower ROE relief from last year's rate case and a favorable tax adjustment at the end of the year. And this is partially offset by a full year of rate increases in 2012 and continued cost control.

We might file a rate case for Edison later on this year in the fall but we're going to work hard as we always do to see if we can push that forward including all the way out into 2013. So we will update you on our rate case strategy for Detroit Edison as we progress during the year.

MichCon's guidance is \$110 million to \$115 million. With the warm start of the year, MichCon has been negatively impacted about \$5 million in January and another \$3 million or so in February. Although MichCon has not had a rate increase since 2009, we will use continuous improvement to deliver targeted earnings which we outline here and this is about \$5 million less than our fall outlook. We also plan to file a rate case in MichCon in the second quarter.

Gas Storage & Pipelines is targeted to have a modest earnings increase from existing assets after a very strong performance in 2011. More significant growth in this business comes in 2013 from the Bluestone pipeline that Gerry just talked about.

Power & Industrials projected to have significant increase in earnings this year growing to \$45 million to \$55 million. That's driven prematurely by the REF business line producing at higher volumes.

At Energy Trading, we are targeting our earnings at a traditional level and we have set our guidance here at \$30 million to \$50 million, which is lower than our actual earnings in 2011. And the Holding Company will improve year-over-year due to lower interest rates. So the total 2012 guidance is \$650 million at midpoint.

Slide 21 provides our cash flow guidance. Cash from operations is projected at \$1.9 billion. It's slightly lower than 2011 due to VEBA contributions and some tax payments in 2012.

Capital has increased to \$1.9 billion and I will cover that on the next slide. We are projecting that we will issue \$300 million of equity through our DRIP program and pension plans and we are also assuming here that we monetize our net properties for approximately our book value of \$300 million.

On slide 22 is our capital spending summary. We expect to spend \$1.9 billion this year with about \$1.3 billion of that being spent at Detroit Edison. Operational CapEx is higher at Edison as we continue to focus on both power plant and distribution reliability.



In addition to the increase in operational capital, environmental spending will increase to \$255 million, as Gerry outlined, and also the renewable energy investments will continue to be strong at \$235 million as we continue to build out our wind portfolio.

MichCon's higher CapEx is infrastructure-related as we replaced both cast-iron mains and we moved meters out of folk's homes from the inside to the outside.

The non-utility spending will increase to \$430 million again driven by the Bluestone pipeline and projects in power and industrial.

As we spend this level of capital, we are also focused on driving economic growth in Michigan. Last year we announced with the Governor that we would increase our Michigan spend by \$750 million over the next five years. Last year we increased our procurement spend in Michigan by \$125 million to close to \$600 million and we will continue to increase that Michigan spend as we fulfill our commitment to take our Michigan spend from 41% to 60% by 2016.

Slide 23 is an update on our balance sheet. As we grow our earnings, we will remain focused on our balance sheet as we always have. Our leverage and cash flow metrics are within our targeted ranges.

In January, the two utilities were upgraded by Fitch to reflect the continued financial performance that you see there and the improvement also has been recognized in the Michigan Economy.

Last year we financed over \$1 billion in debt and that's going to save \$25 million in interest per year. We also renewed and extended our credit facility for five years. The total facility is \$1.8 billion and we have \$1.4 billion of that available at this time.

On slide 24, our dividend is \$2.35 and it's well supported. Since 2009, we have grown our dividend by over 5% annually in line with our long-term earnings growth target. The current yield is about 4.4% and our targeted payout ratio is 60% to 70% and future increases will be supported by our projected earnings growth.

Let me wrap up on slide 25 and then we can take your questions. We will continue to execute on our plan, which has delivered and will deliver 5% to 6% earnings growth going forward and when you put that together with our dividend, this provides a targeted 9% to 10% total shareholder return.

Our utility growth is set in a constructive environment. We continue to make significant investment in the utilities that we've outlined for you driven by mandated investments and also infrastructure investments. Over the next five years, we will invest \$7.5 billion on the two utilities.

We continue to focus on maintaining constructive regulatory environment and we understand that's something that we have to earn every day.

We also have a highly engaged workforce, as Gerry outlined. They are committed to using continuous improvement tools and on both those fronts, both employee engagement and continuous improvement, we're going to continue to focus our efforts as we look to improve customer service and drive efficiencies in the business.

We also have substantial growth ahead of us in our non-utility businesses driven by the Bluestone and REF projects and our goal is to have our gas midstream and power and industrial businesses earn a combined \$225 million by 2016.

Thank you for joining us and, Dana, now we'd be happy to open it up for questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Kevin Cole, Credit Suisse.

Dan Eggers - Credit Suisse - Analyst

Good morning, guys, this is actually Dan. Good morning. The first question I guess just kind of on the REF business and the timing of getting the earnings contribution in, to hit the \$30 million for '12, when do you have to have those additional units placed? Where are you in the contracting process and our ability to kind of see that turn from discussions into something tangible?

Gerry Anderson - DTE Energy Company - Chairman, President and CEO

We have some of the placements targeted in the summer like timeframe and some late in the year. And in terms of where we are, we have quite serious discussions underway with a number of utilities, so we are feeling like we will continue to make progress and place those. (multiple speakers) Does that answer your question?

Dan Eggers - Credit Suisse - Analyst

Yes, I guess when you're looking at those projects, is there some variability potential based on the size of the plants you're looking? I know this is a volumetric business but are you seeing when you might be able to do better based on kind of the size of plants you are discussing with right now?

Gerry Anderson - DTE Energy Company - Chairman, President and CEO

Yes, we are talking to a range of plant sizes so you could be talking to plants that are in the 3 million to 4 million ton range and also plants that are up in the 8 million to 10 million ton range. And to your point, depending on where you end up placing them, if you ended up with a collection of them that were toward the high end, you have strengthened the outcome and if they all ended up at the low end, it would weaken it which we don't expect.

What we've got in our projection here is a mix of those. You end up with something in between the high and the low end.

Dan Eggers - Credit Suisse - Analyst

Okay, then I guess my other question is kind of on the Barnett sale. In the slides, I noticed you gave a little more detail about the breakdown of reserve base between liquids and gas. When you look at monetizing those assets, are you having a better conversation because they're probably more liquids-rich for the Barnett versus what you normally expect?

Gerry Anderson - DTE Energy Company - Chairman, President and CEO

Yes, the whole premise of this monetization has been that there is an oil-rich zone, the Marble Falls, beneath our properties. The wells that we are drilling, the oil wells are producing very good results, really attractive returns and we are able to hedge in prices at the wellhead now at about \$100. So as you can see, a lot of the revenue does come from oil and the vast majority of the rest is from NGLs. So anybody looking at this environment in particular is going to be focused on oil and NGLs and that's a good environment for that.



Dan Eggers - *Credit Suisse - Analyst*

Then I guess if I look at the reserves on 31, there really wasn't a big change in proved or probable on a cumulative basis. Where there some gas write-downs to the move in gas prices that lowered that number relative to activity there or is that just kind of based on your joint activity was a pretty static outlook?

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

I'm not sure I would read that into this. We have been shifting acreage at the same time as part of what has happened here so the focus has what has really just been on the oil in particular. So we have actually been drilling in different places and also these reserve numbers are a five-year projected number under the SEC calculations. So I would not look at that as much as I would be more inclined to look at slide 32 and just see where the revenue and reserves are by oil and to NGL.

Dan Eggers - *Credit Suisse - Analyst*

Thank you, guys.

Operator

Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Good morning. Dave, did you say that you had kind of baked in the weather to date in your MichCon number?

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

We have, so as I said, year to date we are with this mild winter we are off about \$8 million and that's baked in in our guidance, it is assumed in our guidance right now. As you saw, we took our guidance down from EEI \$5 million and we are going to work to offset the remainder.

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

We saw \$5 million in January. We are projecting \$3 million in February. We aren't through February yet, but it's warm, has been everywhere. So that's what we think the impact will be, and as Dave said, we're going to work some of that off and some of it shows up in a bit lower guidance.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Just in Michigan, if there's any lapse in the PTC, how do you react to that? How does the state react to that? And then just any update on choice legislation.

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

On the PTC, we have a requirement at 10% by 2015, so we will continue to invest to make that happen. We are right on track to make it happen. So what really raises is what's the ultimate cost to the customers?



You know, the most recent round of investments that we saw when you were able to internalize PTC, we had projected wind costs in the \$0.0625 range. But if you lose the PTC, it's takes that up a couple of cents. So you're going to be more like \$0.08, \$0.085. So that's the real question. The investment will happen but PTCs lower the costs to customers.

Then on choice legislation, we had some discussion of that last year. It really played out late in the year with the review in the Senate Energy Committee where they took a broad look at the laws that were passed in 2008 and how they felt about them and if you go and look at the findings of that committee, what they essentially said was done a full review. We like the way they're working and we are going to stand firm.

If you go into the administration with the governor and his key aides, I think not only is their focus elsewhere, they don't see any modification of the regulatory construct in Michigan as a priority either. So I feel good about the political climate for that.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Is there a timeframe in '12 when you would like to have the monetization done at the Barnett?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

Well, we're looking towards moving into that mid-year and would try to wrap up by year-end.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thank you very much.

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

Sometime this summer we would kick it off and try to wrap up by year-end.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold - *Deutsche Bank - Analyst*

Good morning, guys. My question is I think you'd said at EEI that you would anticipate in being done with your testing of DSI by the end of the year. And I apologized if I missed comments on this earlier but did you provide an update on that on this call?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

We didn't, but I will provide a quick one. We continue to be encouraged by the DSI testing results. We are a little bit delayed. A couple of the units that we were using for DSI testing ran into operational issues. We had one of the units down for a period that delayed our testing. So we are a couple of months behind where we hoped to be at this point with the testing.

But everything we are seeing suggests that we are going to have good success with that. We are trying to. But we do need to finalize the testing on the remaining units to determine that that in fact is the case, so instead of being done by early this year, we are probably going to play this out through the first quarter, early into the second quarter before we have a clear read on it.



Jonathan Arnold - *Deutsche Bank - Analyst*

Do you think maybe by the next quarterly call you'll be telling us what your plan is based on (multiple speakers)?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

I think we will have a much better idea then, yes.

Jonathan Arnold - *Deutsche Bank - Analyst*

Okay, thank you, Gerry.

Operator

Brian Chin, Citigroup.

Brian Chin - *Citigroup - Analyst*

Good morning. I may have missed this a little bit earlier but I think you had commented on the decoupler and then you jumped straight into commentary on the Michigan economy. Just to be absolutely clear on this, when you got your new decoupler at Detroit Edison, that's only for energy efficiency, so there is upside in case the Michigan economy continues to improve here, right?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

Well, a couple of things. The decoupler is weather-adjusted, so if weather were strong, there is upside. If weather is weak, you are exposed to that. In addition, there's a [debt] band around your sales levels of 1.5% in the first year and then 3%. So you actually are decoupled from weather-adjusted load movements within that band.

If you get outside of the band, if you have a particularly strong or weak year, then you are projected or you get the upside, depending on which direction it goes. Does that answer the question?

Brian Chin - *Citigroup - Analyst*

That does. Thank you very much. That's it.

Operator

(Operator Instructions). Paul Patterson, Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

Good morning. Just to sort of go back to the REF stuff, at EEI you guys sort of saw some significant upside potentially. I think your base numbers look similar for 2015 -- I'm sorry -- 2013 through 2016. But I'm just wondering the upside that you guys saw as a potential, how does that look now that you are further along in the process?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

Well, there still is a band around these earnings and it's driven by the plants that you end up siting them at. As I was saying earlier, if you site the plants at larger power plants -- or you site the units at larger power plants, you play into the upside and the opposite is true if you end up with a string of smaller plants.

So I think we're going to -- we will have a better feel for that as this year plays out and we will be able to give people clarity as we start to actually firm up where we are going to relocate these units.

The other thing you saw on those charts and for earnings and cash flows projected is they drifted up over time and the reason for that is that the tax credits inflate over time, so that continues to be true.

What we are giving you here is you can probably see is kind of the middle of that band as we enter it. But we'll know a lot more about precisely where we are going to land within the band as we get these units sited.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, so sort of stay tuned, I guess.

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

I would say so.

Paul Patterson - *Glenrock Associates - Analyst*

Now the PTC wind tax expiration, I know you got the renewable portfolio standard, but do you see that as potentially impacting the amount of renewable investment that might happen in the state and affect you guys in any way or how should we think about that?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

No, we do have an off ramp that is cost-related for our renewable investments. That was one of the provisions of the RPS when it was put in place. If it got too expensive, you stopped spending. But we do not see that happening. Both the investments to date and our projected cost of future investment suggests we will be able to invest to hit the 10% without the production tax credits. Actually it makes it more expensive but -- our experience with the production tax credits, we had a small amount of wind go into production in the state early on that was about \$0.11. Then it went to \$0.09, then it went to \$0.06, and this was all due to technology evolution.

The turbines went up higher. The blade profiles were changed and so we've gone from capacity factors on these turbines that were in the low 30s now to the low to mid 40s and so -- as you may know, capacity factor is a really big impact on the cents per kilowatt hour delivered out of these units.

So even with the production tax credit potentially going away, we think we will be able to think we have a high degree of certainty that we will play out the investments and the technology evolution has been helpful to make that happen.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, then just finally, what is sort of your long-term planning for megawatt hour or kilowatt hour sales growth on a retail basis in your service territory?

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

We're looking at -- one think we are investing \$100 million a year in energy efficiency, so that's peeling out part of the growth. It's a good thing. We are supportive of that. It's helping manage affordability for customers but it's probably 1% to 2% a year over and above that.

Paul Patterson - *Glenrock Associates - Analyst*

I'm sorry -- is that including the energy efficiency or is that before it?

Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

That would be beyond it.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, so with energy efficiency, what would it be? Would it be less?

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

Yes, there's a slight amount that you would take it down to. So it might over time push it down to 1% all in 1% to 1.5%. But we also would expect as the Michigan economy continues to recover here you're going to see just more natural load growth.

Paul Patterson - *Glenrock Associates - Analyst*

Great, appreciate it.

Operator

Andy Levi, Caris.

Andy Levi - *Caris & Co. - Analyst*

I'm all set but thank you very much.

Operator

There are no further questions in the queue at this time.



Gerry Anderson - *DTE Energy Company - Chairman, President and CEO*

Great. As we said earlier, I really appreciate you being with us this morning, look forward to giving you updates as the year progresses on the plan. But we do feel good about what lies ahead this year. I look forward to talking to all of you soon. Thanks.

Operator

Again, that does conclude today's presentation. We thank you for your participation.

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