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EDITED TRANSCRIPT

DTE - Q2 2013 DTE Energy Company Earnings Conference Call

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OVERVIEW:

Co. reported YTD operating EPS of $1.96 and 2Q13 operating EPS of $0.62.

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PRESENTATION

Operator

Good day and welcome to the DTE Energy hosted second quarter 2013 earnings release conference call. The today's conference is being recorded. I would like to turn the conference to Mr. Dave Meador. Please go ahead, sir.

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

Good morning and thank you and welcome to our second quarter 2013 earnings call. Before we get started, as always I encourage you to read the Safe Harbor statement on page 2 including references to forward-looking statements. Turning to slide 3, with me this morning are Peter Oleksiak, our Senior Vice President of Finance; and Dan Brudzynski, our Vice President and Treasurer; and Anastasia Minor, our Director of Investor Relations. I also have members of the management team with me if needed during the Q&A session.

Let's start by turning to slide 5. This slide describes how our business strategy has driven consistent earnings and dividend growth and maintaining the strong balance sheet. As Jerry Anderson lays out our May analyst meeting our business strategy focuses on our system of priorities and they allow us to achieve a consistent 5% to 6% earnings growth. We have a highly engaged work force with an ongoing focus on continuous improvement. And with those together that enables us to continue to drive cost savings which we have a strong track record of doing. Together with the constructive regulatory environment our utilities have consistently earned their authorized returns. These efforts allow us to achieve operational excellence and customer satisfaction that we believe are distinctive in the industry.

Our growth plans with both utilities are robust with DTE Electric's growth driven by operational investments, mandated environmental controls, and renewable energy. At DT Gas growth is driven by infrastructure investments and meter relocation. We also have meaningful, low-risk growth opportunities in our non-utility businesses, and that provides both diversity and earnings and geography. Maintaining our targeted 60% to 70% dividend payout, and a strong BBB credit rating, and focusing on our system priorities has led to superior financial performance that we believe will be sustained over the long term.

If you turn to slight 6, this is our earnings and dividend growth slide that we shared in the past. And I believe the story is a good one. With solid results from 2008 to present. In fact, we've exceeded our commitment of 5% to 6% earnings growth by delivering 7% annual growth from 2008 through our projected 2014 target. We are committed to the 5% to 6% growth in the future and have achieved a plan that we believe will deliver these results. As you know, we increased our dividend earlier this year from $2.48 to $2.62. That's a 5.6% increase. And based on our $4.05 earnings-per-share midpoint for this year, that dividend level provides a 65% payout which is in line with our target. As our earnings continue to grow, we would expect to grow our dividend.

And the most important point on this page for me is our overarching aspiration on the bottom which is to earn $1 billion by 2017. As we've described in the past our 5% to 6% growth target is comprised of utility growth of 6% to 7% and non-utility growth of 15% to 20%. When you factor in dilution from modest equity issuances and contingency that we always plan for, we get back to our 5% to 6% overall growth target for DTE. In the next couple of slides I will take you through more details on that.

So turning to slide 7, I want to cover the growth of the two utilities. Our electric utility will invest $6.4 billion over the next 5 years. While earning its authorized return of 10.5%. This capital is driven by mandated capital investments in ongoing transition of our generation portfolio. Additionally our rate case deferral strategy and our ability to lower operating expenses both contribute to providing affordable services to our customers at both utilities. At our gas utility we expect to make just over $1 billion in new investments over the next 5 years. And like the electric utility, gas will earn its authorized return of 10.5% while limiting additional rate increases to customers. This is enabled here by the new, investment recovery mechanism which will allow us to recover $400 million of investments. And both utilities benefit from an improving Michigan economy which I will cover in a few moments.

Turning to slide 8, I want to cover the growth of the non-utility businesses which comprise about 20% of our overall earnings. At our analyst meeting in May we laid out in detail the growth story for these businesses and we are on track to achieve the targets. Gas storage and pipeline targets at 10% to 15% earnings growth over this period with a 10% to 12% return on invested capital. This business has three asset platforms with the number of expansion opportunities. The platforms include first the storage and vector platform. The second one is the Marcellus platform which is comprised of the Millennium pipeline, and then the Bluestone pipeline and gathering system. And then the Utica platform which is an emerging platform for us with the proposed Nexus pipeline.

We have established solid partnerships with both pipeline and EMP players and we manage our risk exposure through long-term contracts in this business. We are on track with our $1 billion to $1.3 billion in targeted investment program for the segment over the next five years. It's going to be significantly tied to the developments in the Marcellus platform. Our work here is progressing very well in the Marcellus Shale and we're optimistic about our growth with the Bluestone pipeline and gathering system where we see very positive developments. When we talked about this in May, our previous commitment to the Bluestone investment was $500 million.

The pipe and gathering system is a primary area of focus for us and now we are increasing our capital investment in that area to $650 million. This gives us the confidence that we will reach $100 million in earnings for this segment by 2017. The pace of the development in this region has exceeded our original expectation and as we speak we are in discussions with several parties that can bring even more investment opportunities. Possibly $200 million beyond the $650 million as we work to fill in the $20 million of white space for the segment which will get us to $120 million of earnings by 2017. We will update you as developments unfold and certainly we will provide more detail on the comprehensive update this fall at EEI.

Our power and industrial business targets approximately 20% earnings growth and a 10% to 15% return on invested capital. Current industrial consists of three main businesses. The industrial energy services, renewable energy, and reduced admissions fuel. Each of these business lines has a focus to help us achieve our growth target. We capitalize on our strong position in industrial services to continue on that success in this business. For our renewable business we will complete construction that are in process right now and we expect near-term earnings growth for both reduced emission fuels through incremental relocation and optimization of our existing facilities. And as a reminder our goal here is to grow this business segment to $140 million in earnings by 2017.

Turning to slide 9 you can see Michigan's economy continues its turnaround story. Starting with the chart on the top left, Michigan auto production has doubled since the lows in 2009 and is projected to increase further this year as auto industry returns to pre-recession sales levels. Moving to the right, you see housing startups have increased significant and unemployment trends continue in a very positive path. Michigan unemployment's rates have significantly improved from the highs of 2009.

With these positive indicators of the Michigan economy the state continues to see recognition on many fronts and I just listed a handful of these here. The National Association of Manufacturers identifies Michigan as leading the country in new manufacturing job creation, S&P rated metro Detroit number 5 in annual home price gains. Moody's upgraded Michigan's outlook to positive earlier this year. And we've talked about in the past, now that Michigan ranks number 7 on the tax foundations corporate income tax ranking from being one of the worst in the country to one of the best in the country now.

As the state continues its strong economic comeback, the city of Detroit is also working its way through its economic transition. We see positive signs there indicating the city is on the right track. Many of you are aware that the city has decided to exit the electric distribution business. That means 115 customers will transition to DTE within a year and we will build out our distribution system for those customers and that will take us about a five to seven year period to do that. The street light system will not move to DTE. There has been a separate authority created and they are designated to manage and finance the city street lights and obviously we'll help there where we can be helpful.

Regarding the financial condition of the city, it's really unfortunate how this whole bankruptcy is often characterized by the national press in the photos they use to represent Detroit. The greater Detroit metropolitan area is experiencing broad economic recovery. The city of Detroit also has very positive momentum in the downtown and mid-town areas in terms of economic and real estate development and employment. As you know the city's financial condition was built up over many years and the business community in Detroit used the bankruptcy as first step to a better and brighter future. We believe the bankruptcy will address the financial problems in both the meaningful and sustainable way and we believe there will be no impact on DTE energy.

As in the past, we will work with the governor, mayor, the emergency financial manager to help in anyway possible. And this includes the work that we described and already committed to relative to the city's lighting and electric distribution system. The state and the greater Detroit regional economy are doing very well and I'm confident that we will move quickly through this city's bankruptcy and will come out stronger as both the city and a state.

Now turning to slide 10, as you all know the governor has appointed a new member to the Public Service Commission, Sally Talberg, who replaces Orji Isiogu whose term expired on July 2. We would like to thank Orji for his years of service and support to the state of Michigan. As you know we've developed and maintained a very constructive relationship with the commission. And we look forward to working with Commissioner Talberg as we continue to collaborate with providing Michigan with reliable and affordable utiliity services. A constructive regulatory environment is critical to our success and we are fortunate that Michigan is rated as one of the best regulatory environments in the country.

And now moving on to slide 12 to get into an overview on the quarter. Our financial performance has been strong in 2013 with year-to-date operating earnings of $1.96 per share, which is an $0.18 increase over 2012. You will hear more from Peter in a moment but we are both very confident that we are on track to achieve our mid-point target of $4.05 per share. The second-quarter operating earnings were $0.62 per share compared to $0.87 last year. A good portion of this difference is due weather that was much closer to normal this quarter compared to second quarter of last year. You may recall last year we had one of the warmest on record on providing DTE Electric $21 million of favorability due to weather in the second quarter of 2012.

Peter will take you through this in more detail. But I wanted to set the context. We talked about structural cost reduction as one of our major initiatives as a way to lower customer cost and also to stay out of rate cases as long as possible. We have a big one that is phasing in during the year and it's related to retiree medical costs that we restructured. At the same time because that's already hard wired and it will be phased in and not only this year but over the next four years, offsetting that is an explicit reinvestment program that we started in the second quarter of this year. Both of these are overlays to normal O&M performance and are tools for us to hit both our authorized returns in our guidance and to stay out of rate cases as long as possible. And Peter will explain some of those that are playing out this quarter and will play out for the remainder of the year.

The balance sheet remains strong. And generating approximately $1.3 billion of cash from operations year to date and with the strong credit rating from each of the rating agencies we are on track to meet all of our goals for this year in terms of cash flow and our balance sheet. With that background I will now turn it over to Peter who will take you through the quarter in more detail.

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

Thank you, Dave. Good morning, everyone. I would like to start with slide 13 and the second quarter earning results. In the quarter DTE Energy's operating earnings were $0.62 per share. As a reminder, reconciliation of the GAAP reported earnings in the appendix. The two utilities DTE Electric contributed $0.51 and DTE Gas came in at $0.05. Non-utility segments combined earned $0.14. The drivers for the non-utility second quarter results are gas and pipeline at $0.09. Our industrial project is $0.06, energy trading at a loss in the quarter of $0.01. Finally corporate and other had a loss of $0.08.

Let's move on to slide 14 and summary of quarter over quarter performance by segment. Both the utilities cooler weather in 2013 is a large driver of the year over year variances. DTE Electric contributed $38 million last year over year, and DTE Gas has increase of earnings of $4 million. I will cover more details on DTE Electric and DTE Gas in a moment.

Our non-utility segments operating earnings in total are down $6 million primarily driven by lower earnings of our energy trading segment. Our gas storage and pipeline segment for the quarter earnings growth in our pipeline assets is offset by lower storage earnings. We expect the incremental pipeline growth to start flowing through bottom line in the second half of the year, as volumes increase in our Bluestone investment. Power and industrial earnings are slightly higher in the quarter driven by growth in our waste-wood renewable project earnings.

Year over year, year-to-date growth in this segment is on track to achieve guidance levels and we are comfortable with the guidance we have for the segment. And energy trading fewer market opportunities flow into the bottom line this quarter is driving lower earnings quarter over quarter. And appendix we have included our standard energy trading slides and will show economic and accounting performance. Following our corporate and other segment came in favorable by $2 million from last year primarily to lower interest expense.

Before I move on to talk about the two utilities in more detail, one dynamic I want to discuss is quarterly noise related to increased O&M spend and benefit expense reduction efforts, Dave set the table for that in his opening remarks. Operations to maintenance expenditure are higher this year due to O&M reinvestment spending. This additional spending is funded through changes we made to our benefit plans which will flow through the bottom line in the balance of the year. If you recall, in the first quarter call we talked about structural changes we made to our retiree health care and moving to a Medicare delivery model. These changes came in two parts. The first was last year with our non-represented work force. And the second phase with our represented work force which occurred earlier this year.

Across both utilities the total benefit decrease is $60 million after tax this year and our re-advised guidance we have provided at our Analyst Day in May. About 50% of this decrease we are reinvesting back into the utilities this year. We will need the full amount next year to flow to the bottom line for both utilities as part of our stay out rate-case strategy. And the benefits split is approximately $50 million for the electric and $10 million for the gas and reinvestment totals approximately $30 million, split $18 million to $20 million for electric and $7 million to $10 million for the gas.

With that as a back drop, I'd like to turn the slide 15 as I walk through some of the details. Now, first with the quarterly details for DT Electric. Operating earnings for DT Electric were $89 million, down $38 million from the prior year. The largest driver of this reduction in earnings is 2012 had normally hot weather that did not repeat in 2013. Unfavorable weather of $23 million quarter over quarter can be broken down in two pieces. The 2012 favorable weather was $21 million added to a $2 million slightly unfavorable weather in the quarter this year.

May was slightly hotter than normal this year but did not see much customer response in that month, and a relatively mild June more than offset May resulting in a relatively temperature normal quarter. Another dynamic in this quarter for the electric utility is the O&M reinvestment in the quarter and the timing of planned outage expenses. The reinvestment spend represents about $8 million of $20 million of O&M increase in the quarter. The benefit plan changes I discussed earlier drives $12 million of favorability and we have higher depreciation property taxes and interest expense in 2013 driven by rate base growth.

Given the quarterly noise related to the benefit of O&M reinvestment, on slide 16 I will walk you from the 2012 full-year earnings to the 2013 guidance mid-points. So, when you combine the first and second quarter for the first half of the year, DT Electrics earnings are down $19 million driven by return to normal weather. Higher O&M offset by the lower benefit expense. For the remainder of the year, a return to normal weather is offset by net year over year lower investment of $10 million. And let me break down that number. In the second half of 2012, if you recall, we invested $20 million of that year's abnormally hot weather and our plans for 2013 second half is reinvestment approximately $10 million. And which you can think about is in addition to the $10 million we reinvested in the first half of this year. You can see on this chart the benefit expense improvement flowing through along with the higher load and renewables growth in the second half this year. Now the main message of this page is that the underlying earnings electric utilities is very strong this year and we are reinvesting incremental earnings back into the core assets of the business.

Before I leave the electric segment I just want to give a quick update on the electric sales front. Our electric business is experienced a 1.5% service territory temperature normal growth in the quarter with growth across all segments. Industrial segment hit the highest growth at 5% in the quarter. The low growth in the second quarter and the year to date is in line with our expectations and helps us affirm the 2% total growth for the year.

Let's move on to the DT Gas starting on slide 17. The second-quarter earnings this year is higher by $4 million for 2012. I talked about the cooler weather negatively impacting the electric business in the quarter. This cooler weather had a positive impact on gas utility. Also impacting the quarter is the flow through last year's rate-case settlement. Off setting the weather and the rate order and the quarter over quarter earnings is a one time revenue decoupling true-up that helps second quarter of last year. On this page you can see the lower benefit expense which is gas utilities portion of the structural plan changes I discussed earlier. (Inaudible) electric business is our plan is to reinvest a portion of this benefit expense reduction back in the core operations for the second half of the year.

Let me move to the total enterprise in the guidance for the year. Shown on slide 18 we are tracked to achieve our operating earnings guidance at all of our segments. Overall utilities are on track to achieve their guidance for the year. And I talked about DT Electric and how we are seeing strong earnings this year. At DT Gas, as you can see on this page, the first half of the year was very strong. Driven by favorable weather, higher normalized consumption and lower benefits. As I mentioned we are also targeting O&M reinvestment in the second half of the year on our gas utility related to the benefit expense restructuring.

The quarterly profile for the remainder of the year for gas utility will be different from last year. Since last year we were digging out of our first-quarter weather hole with a lot of one-time actions and pull back the spend in the second half of the year. And this year we will be stepping up our spending to reinvest a portion of this year's strong earnings. This quarterly profile difference will show us help next quarter where last year our gas utility made a small profit driven by the one-time actions and spending callback and typically we have a loss in the third quarter for gas utility. At our gas segment we also will be monitor the remainder of the year weather and usage. And either increase our reinvestment plans or flow all those related earnings to the bottom line.

In summary, our utilities are performing well and we have the potential to earn above guidance midpoints for those segments. As I mentioned earlier, our non-utility growth segment are on track to achieve their guidance with Bluestone pipeline and gathering system ramp up. And the incremental earnings associated with the reduced emissions fuel business line flowing through the second half of the year. Energy trading earnings will be back-end loaded this year tied primarily to deliver gas and power in the fourth quarter. We are still comfortable with the current guidance for the segments. And that concludes an update on the earnings for the quarter. I'd like to turn the discussion to Dan Brudzynski who will cover cash flow and capital expenditures.

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

Thanks Peter, and good morning. Beginning on slide 20 and our year-to-date cash flows. Cash from operations is slightly up for the year. Supported by the positive early-year winter weather within the gas business. And the timing of some of our corporate tax payments. These are slightly offset by declines in DTE electric due to a return of relative normal weather for the quarter as Peter mentioned earlier. Capital spending is comparable to last year and I will cover those details on the next slide.

Overall net cash was slightly up halfway into the year as Dave mentioned already. At this point in the year we are maintaining our cash flow guidance with continued benefit plan contributions planned for the second half of the year and to gauge where the summer demand plays out over the next couple of months, but we'll give an update later this year on cash-flow guidance.

Moving on to slide 21 and a look at our first-half capital spending. Electric utility spending was similar in 2013 to 2012 with lower nuclear fuel--refuel spending in 2013 partially offset by increased renewable investments in our Echo Wind project. Gas was similar year to date while our non-utility investments are up due to the completion of the Bluestone pipeline and the build out of the gathering system in the Marcellus region surrounding Bluestone as Dave mentioned earlier. Finishing up on slide 22, our balance sheet remains strong with leverage in FFO metrics in line with our targets, $175 million of our $300 million equity target has been issued year to date into our benefit and drip plans, and we continue to have sufficient liquidity midway into the year. And with that I will turn it back to Dave for concluding comments.

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

Thanks, Dan. Let me wrap up on slide 24. As we've laid out, we have a very strong start to the year and we are confident that we will reach our 2013 guidance. Peter laid out some of the nuances here as we experienced the structural cost change and our reinvestment plan. And certainly if you have more questions about that in the Q&A session we will help you through that. Going forward, as we laid out in the past and laid out again this morning, if you look at our mandated investments and low-risk non-utility growth opportunities in front of us, we are also confident about our 5% to 6% annual earnings growth and then the dividend growth over time. And the balance sheet as Dan laid out also remains strong and we are happy with where we are there. All in all, my mid-year report we are very much on track and confident we will hit our year-end objectives. We will open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will take our first question from Kevin Cole from Credit Suisse.

Kevin Cole - *Credit Suisse - Analyst*

I guess the first question on the Detroit bankruptcy. What is the time line and path to resolution and are there any key issues or headlines, real or not, that could weigh on the DTE story?

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

First of all in terms of timeline, what the emergency financial manager had laid out was a general timeline of filing--initial filing as they did this last week. There is already a series of hearings that have started. The federal judge has already been appointed and they started hearings already this week on a variety of technical issues. Their goal is to have their restructuring plan presented to the judge this fall. I believe in October. And then to have this wrapped up in the spring. And that's the overall time frame.

In terms of issues that impact on DT, we anticipate no impact on us so there is no milestones or anything to look for in terms of that. On the positive side, as we mentioned, the one thing that we have already started working on because the city exiting the electric business, we are already starting to work on the process to take on the customers that the city previously had laid out. We have some regulatory filings we made with the Public Service Commission because this is going to be about a $300 million investment program for us over a five to seven year period. But again that's all on track and underway already and I don't anticipate any issues there either.

Kevin Cole - *Credit Suisse - Analyst*

And no IOUs from the city to DTE?

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

We have normal receivables that we have and they have been paying timely and we expect that to continue to be paid on a timely basis. The chapter 9 is different than an 11. So an 11 you have to go to the judge for first day orders to decide what bills are going to be paid. In a chapter 9 the emergency manager makes that decision. He does not go to the judge and we have every indication that we believe we are going to continue to be paid.

Kevin Cole - *Credit Suisse - Analyst*

And lastly, Dave, in your scripted remarks did you make a comment about increasing the Bluestone CapEx by $150 million? Did I catch that right?

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

Yes, I did.

Kevin Cole - *Credit Suisse - Analyst*

And so --

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

As we laid out for that segment, we -- when we talked in May we have $1 billion to $1.3 billion in total investment that we will be making over many years in that segment of mid-stream and Bluestone specifically. This started out a much smaller project. At one time we were talking $200 million to $300 million. By the time we got to the Analyst Meeting in May it was $500 million. Right now with additional work that we are taking on in the gathering system for southwestern it's $650 million. And hopefully by the next time I talk publicly about this, which will be in September, it is going to be a higher number than that also.

Kevin Cole - *Credit Suisse - Analyst*

What will be the time line of that Cap Ex being deployed? Would it be toward the '16, '17 time frame?

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

No, I think this is playing out generally the way we thought. So again in May what we laid out for you for the segment was we said by 2017 we want to be to $120 million of earnings and we had $20 million of white space. What we feel right now, based on what we have underway, that gives us confidence in the $100 million and now the team is working on incremental investments to start filling in the white space that will get you to $120 million.

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

I think this is one way to think about it we are drilling the wells we are putting [together] to that is good pace over the next few years for that spent.

Kevin Cole - *Credit Suisse - Analyst*

Okay, so this $150 million Cap Ex is upside to the Marcellus blue or purple bar on your guidance? This is help filling up the white space.

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

It helps firm up that $100 million. You remember on Analyst Day we were talking about how we were confident on $85 million? We had this $100 million with good line of sight and helps firm the $100 million.

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

And the team now is working on the remaining white space. Hopefully when we see you in this fall we will report back to you there is incremental investments over the $650 million. Which will then give us certainly more confidence as we March towards our goal of $120 million by 2017.

Kevin Cole - *Credit Suisse - Analyst*

Great. Thank you, guys.

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

Thank you.

Operator

We will take our next question from Andrew Riedell from Macquarie Capital.

Andrew Riedell - *Macquarie Capital - Analyst*

First question is, on slide 16 when you showed the walk for DT electric, it looks like this return to normal weather is for the second half does not imbed the upside from a hot July. Should we think of that as leading to upside to the guidance or would any benefit from that heat be reinvested after the summer is over?

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

That is something that -- and I gave a range on the second-half reinvestment. We are going to be monitoring the weather and storm activity. Now July today it's in the 60s and maybe 70s. We are seeing how much we will give back in July here in the state of Michigan, given the back half of the month. And we had a catastrophic storm in the month as well. Probably the main point there is we will be monitoring and adjusting that reinvestment plan based on weather and storm activity.

Andrew Riedell - *Macquarie Capital - Analyst*

Okay. Fair enough. And then along those lines there was a lot of reinvestment in the second quarter. Obviously ahead of the summer which is seasonally most important. Can you walk through the strategy of the timing as to why you did that earlier in the year as opposed to waiting to see when most of the 3Q was in the books?

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

That's a great question. As you know weather variability in the electric business plays out predominantly in July and August. If you look at number of cooling degree days normally in those months our normal pattern would be to wait until the summer played out before--even I thought I saw favorability before I trigger reinvestment program. And the reason we did it is because of the remeasurement on the benefit programs. So that remeasurement as Peter mentioned the salary plan remeasured at the end of last year. The represented plan at the end of March. And those numbers are hard wired.

Now we saw this favorability coming through our forecast relative to retiring medical. And based on that and a good start with the gas business and other factors we started to early on we started the reinvestment program even though we had not been through the summer. So, we staged our reinvestment program in multiple stages because my number one goal is to always hit my authorized return and I didn't want to reinvest too early and then find ourselves short at the end of the year. But a lot had to do with the confidence the way the county works for this retiree medical which is not only going to come in this year but it is going to play out over the next several years.

Andrew Riedell - *Macquarie Capital - Analyst*

Great. And next question is you mentioned I think in the second quarter industrial was up 5%. With a normalized low growth and 1.5%. Can you talk how residential and commercial, how those looked? Then also you said 2% for the year, any thoughts on the weather adjusted load growth in '14 and longer term?

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

For the quarter, the residential actually was up 2% and the commercial was 1% and industrial, I mentioned, was 5%. All in around 2% for the quarter. On a year-to-date basis we are at about a 1% and we--actually the industrial growth will continue on. We have some larger projects here in the service territory that will play out. We were comfortable with the 2% for this year. Longer term, I think we indicated approximately 1% growth that we are anticipating.

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

And that's after energy --

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

After energy efficiency.

Andrew Riedell - *Macquarie Capital - Analyst*

Sounds great. Then my last question is for PIP, you talked a little bit about the near term earnings pick up from REF renewables and the first half results are a little below 50% of the full year guidance. Can you maybe talk about some of the drivers that will lead to that acceleration in the second half?

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

We described that we have multiple business lines there. One of the business lines is our renewable business line which are the plants that were coal plants being converted to wood. And one of those plants was already on-line but its capacity factor actually raises during the year. And then we have another plant that's coming on-line and that's why the earnings profile for that business line is back-end loaded. And then as we talked

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about with REF, we are trying to optimize the nine machines and we have some relocations that are going to actually trigger in and that gives us higher tons produced. And then again that's back-end loaded for 2013 and then that's going to drive the earnings there.

Andrew Riedell - *Macquarie Capital - Analyst*

Okay. Thank you very much.

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

Thank you.

Operator

Our next question comes from Jonathan Arnold from Deutsche Banc.

Jonathan Arnold - *Deutsche Bank - Analyst*

Good morning, guys.

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

Good morning, Jonathan. First question, I just curious on just revisiting the pipeline segment. You said the extra $150 million of spend you disclosed today would help to firm up the $100 million, '17 earnings target. Do you more of the incremental stuff to further firm that up? Or are you already now into filling the white space?

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

We are in negotiation right now with a handful of producers in the area that I believe will lead to more gathering work in that region. We also are, because of what we are seeing play out there, I think the pipe itself. So we have the Bluestone pipe and then the gathering system. That pipe is going to fill up quicker than I think we thought, too. As this all plays out I think what you will see is we periodically update you the Bluestone pipeline and gathering system is going to generate more earnings power and that will basically fill up that white space. And so what we are going to do will be out publicly in September and then see you at EEI. We'll just give you updates on where we think we are on the remaining $20 million for 2017. The good news for the segment is that's a long time away and we already have line of sight here in terms of our investment profile that's going to get us to that target.

Jonathan Arnold - *Deutsche Bank - Analyst*

To be more specific, next time you say announce another $100 million of spend, will that start to narrow the gap? Or will that still be firming up?

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

That will narrow the gap to $120 million.

Jonathan Arnold - *Deutsche Bank - Analyst*

Thank you. And then just maybe a silly one but on slide 18 we have the guidance which didn't change the ranges. But you have these green arrows on the two utility segments. I know you've used those in the past to imply guidance change but is that -- should we take from that you feel high end or there is an output buyer so what are those arrows implying?

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

Those arrows and I did mention in the prepared remarks that we believe right now that both of them are on track to achieve above the midpoint and actually with the benefit increase they would be above and probably above the guidance. We are in the process of reinvesting really to kind of bring them back to the guidance level. So I think the one in particular I did call out was the DT Gas and you can see the strong year to date. There is between weather actually some increased usage and consumption that's non-weather related. We are in a period now where we have a suspension of the decoupling mechanism. It's a methodology of the rate making process, that will (inaudible) the bottom line. That segment in particular I'm feeling there is a potential that we are going to be increasing. Or at least hitting more of the upper end of the guidance range.

Jonathan Arnold - *Deutsche Bank - Analyst*

And above the mid-point on electric is the implication then I guess?

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

Yes.

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

And basically what you are seeing play out here is as we mentioned this benefit amortization is fixed. And the bias is that you are seeing upward pressure there and is going to be offset with our reinvestment program which is going to be phased in over the remainder of the year. Then the other variable is weather and how weather plays out for the remainder.

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

Something that we will get through the summer here. In the third quarter call we will give you an update where we feel the year is coming in then.

Jonathan Arnold - *Deutsche Bank - Analyst*

Great. Then finally on the are you still feeling -- going to remember what you said about timing for certain sighting of the two remaining reduced emission fuel units. At year end-type of -- by year end objective?

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

For there as you know the variable the timing as well as the volume and right now it does look like it could be year-round and it could go into next year first half of next year as well. We did include in the appendix the earnings profile for that for that. For the REF we are still very comfortable with that earnings profile.

Jonathan Arnold - *Deutsche Bank - Analyst*

And then --

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

And also comfortable for that segment and what we have already given you for '13 and '14.

Jonathan Arnold - *Deutsche Bank - Analyst*

Good. The '13, $50 million sort of imply not much benefit from the second -- the last two units because they would be either very late in the year or early next?

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

For this year there would be minimal contribution this year.

Jonathan Arnold - *Deutsche Bank - Analyst*

Okay. Thank you very much.

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

Thank you.

Operator

We will take our next question from Julien Dumoulin-Smith from UBS.

Julien Dumoulin-Smith - *UBS - Analyst*

Good morning.

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

Good morning.

Julien Dumoulin-Smith - *UBS - Analyst*

Perhaps following up on Kevin's question on incremental Cap Ex, I'm curious from the perspective of the power and lighting opportunity you alluded to earlier, just the timing of that how that meshes with your Cap Ex budget, if you could walk through that a little bit more?

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

You're asking about the city of Detroit public lighting $300 million?

Julien Dumoulin-Smith - *UBS - Analyst*

Indeed.

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

One way to put this in perspective, our total Cap Ex is $2 billion a year is what we laid out for the next five years. The electric utility is $1.5 billion per year, every year. And this is $300 million over a five to seven year period. So it's not that significant in the big scheme of things. Not only in terms of our total Cap Ex over that period, which is for the electric utilities $6 billion. And then it's also a minimal impact when you think about it from a customer standpoint in terms of rate. As life goes, it sounds like a big number but when you stand back and look at a five to seven year period it's pretty small.

Julien Dumoulin-Smith - *UBS - Analyst*

Great. Thank you. Then perhaps going back to the mid-stream side of the equation, I know you alluded to providing updates later this year. As it goes to Utica, I would be curious how developments are shaping up, in particular on the dry gas. I suppose that was a longer dated development opportunity. But curious how it's shaping up for you guys. Is it quite as strong as Marcellus?

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

I don't think there is any significant new news right now. As you know on the Nexus pipeline that has been proposed the in-service date as we saw it was 2016. And in the mean time for all of us, everyone is monitoring what's happening in the Utica development. I would just say right now for us the focus has really shifted Susquehanna county within Pennsylvania because there is so much going on there and so much prolific drilling going on that the opportunity set is right now there in the next three to five years. That said, the project, the Nexus project continues on its path but the one thing that everyone continues to watch which is the big variable is what you mentioned. Which is how does the dry gas production play out over time and there is really not any new information on that right now.

Julien Dumoulin-Smith - *UBS - Analyst*

Great. Thank you.

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

Thank you.

Operator

Our next question comes from Greg Gordon from the ISI group.

Greg Gordon - *ISI Group - Analyst*

Thank you, good morning. A follow-up question on the REF conversation. I'm curious as you look at the two machines that you are looking to place. And as you think about optimization opportunities for the existing machines. Are those potential counter-parties more merchant power generators, home merchant power generators, or regulated utilities that own coal assets? And are you seeing the appetite for the types of cost savings that you generate through the REF business increase, decrease, or stay about the same given how much distress some these merchant power generators are under. And how it might be more intrigued by the opportunity to save a little money in their overheads.

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

It's actually when we talked to counter-parties it's all of the above. So the people that we talked to are pure merchants. They also are utilities that have de-regulated coal plants. But there is as much interest with utilities that are fully regulated with a pass through. The reasons that they are interested is that people are really trying to hit their environmental objectives and the key thing that REF does is takes out 40% of the mercury up front. And it gives people a much better shot at consistently hitting a 90% mercury reduction and it comes at a negative cost. I mean, in some ways it doesn't get any better.

Even if you are a regulated utility. And we have this at some of our plants. To be able to take out 40% of the mercury and then have basically a cost reduction that flows through to your customers is good. And the conversations that we are having is more about trying to get these at the largest plants possible but also the plants that have the right boiler configuration because this has to work in line with everything else that's working. And we want ideally we want these at large plants that will run for nine years because that's how long the tax credit goes out. I could relocate them if we have to but that's not desirable. Much of the conversations tend to be with the engineers doing their test burns to make sure this is really going to work. Not only today but it's going to work over many, many years and not impact the boiler in anyway.

Greg Gordon - *ISI Group - Analyst*

Got you. Last question from me on the power industrials business. You guys have indicated you're extremely pleased with the financial and operating performance of the recent transaction where you acquired assets from Duke. Are there more portfolios like that out there that you could attempt to replicate that outcome given the economic environment for power generators? Is that more robust opportunity set now than it was six months ago, less, the same? And if you are able to achieve something of that sort of size and scale would it allow you to exceed your current aspirations for growth in the business?

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

Right now what we laid out at the Analyst Meeting is our aspiration is to grow that business to $140 million. That business also had white space. Over the next several years that group has growth imbedded in what they are already doing. As renewable energy plants come online; as REF get relocated, some of their growth will play out. And then their was remaining white space. And the remaining white space their primary area of focus is exactly what you bring up. We were already in the energy services business and we, for example, own and operate the energy center at the Detroit metro airport. We own and operate the energy center at GM's headquarters. With the Duke acquisition and those projects that came online we are one of the larger players in that space nationally. And we believe that we not only have the skills and competence and track record but there is some scale benefit here. It's an area of focus as we are spending a lot of time on right now as they work to fill in that white space.

Greg Gordon - *ISI Group - Analyst*

Are there more eager sellers now than there were six months ago given that some of them might own portfolio of merchant power assets and they need capital?

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

I would say that we have more discussions. I don't know how eager they are but we are in more discussions with more potential parties around assets that we could acquire than we were six months ago and certainly more than a year ago.

Greg Gordon - *ISI Group - Analyst*

Great. Thank you, guys.

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

Thank you.

Operator

We will take our next question from Char Pareeza from Citi.

Char Pareeza - *Citigroup - Analyst*

Hi, everyone. In your operating earnings aspiration of $1 billion, can you remind us after energy efficiency what kind of load you are assuming through that time period? On the electric side.

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

Electric side we are assuming a 1%. After energy efficiency.

Char Pareeza - *Citigroup - Analyst*

After energy efficiency. Then for the electric utility, can you remind us what lag, if any, there is and how long you anticipate staying out of a rate case?

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

We are targeting right now to kind of coincide. We have a securitization with our nuclear plant dropping off in '15. New rates coming in there which will mean a mid-2014 filing. With rate increase in early '15.

Char Pareeza - *Citigroup - Analyst*

Then lastly with Bluestone ramping up, is there -- an MLP drop down still not in the near term strategic focus?

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

I would describe it as not in the near term. Certainly as we said it's something we will continue to evaluate. But we have so much time and energy right now focussed on the investment opportunities and not having an MLP, as we said, is not inhibiting us in any way from finding and executing on a lot of this growth. We are more focused on finding the investment opportunities and executing on them right now.

Char Pareeza - *Citigroup - Analyst*

Great, thanks a lot.

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

Thank you.

Operator

And we will take our next question from Paul Ridzon from KeyBanc. Please check your mute function.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Can you hear me?

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

Yes, we can hear you.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Sorry about that. Thank you for your commentary on the OEM timing, that was useful. Just an unrelated question on any update on the discussion of Michigan about re-opening the energy legislation?

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

In terms of the energy policy area right now. As you know, there was a series of hearings and fact finding that the commission conducted and we expect them to submit their report to the governor later on this fall. Beyond that there is not much else that happened or going on right now as of Michigan. I think there are other areas of focus that the administration is working on. Longer term we do expect that what we will eventually will hear there is going to be some interest in expanded renewable energy program beyond the 10%. That's not until after 2015.

There seems to be a lot of energy and focus around continuing the energy efficiency program in Michigan and in terms of dealing with the issue around choice I think there is actually growing sentiment that having this bifurcated market where you have 10% of marketed choice which represents about 1% of the customers probably doesn't make sense. If this thing doesn't stay where it is there seems to be more energy around taking that down, not up. I would say it's not an area of key focus in discussion now. There is not a lot of noise about it.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thank you very much.

Operator

We will take our next question from Kit Konolige from BCC financial.

Kit Konolige - *BCC Financial - Analyst*

Good morning, folks. On Peters discussion of the benefit savings. Can you just go through again, I have it's $60 million after tax in '13 and 50% of that goes to O&M and then the full amount in '14 is -- do I have that correct?

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

That is correct and there is a bit of a bump around $10 million for '14. As mentioned that the union plan we have to remeasurement at the first quarter and pick up another quarter of that next year.

Kit Konolige - *BCC Financial - Analyst*

Right, so your discussion is none of that will be used for reinvestment in '14 but would all go to the bottom line to support the projected earnings growth.

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

Support the earnings growth and rate base and growth for both utilities.

Kit Konolige - *BCC Financial - Analyst*

Are there other benefit reduction opportunities out there?

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

Not as large as this one. We were continuing to work on this and we also are teeing up other, what I describe as structural cost opportunities that we want to work on. Because when we stand back and do our planning our goal is to hit our authorized return and grow 5% to 6%. But we are also looking at the amount of capital that we are going to have to continue to spend and then modeling rates to say how do I keep rate increases over time as low as possible. And the way for us to make that work over time is to continue to work on cost on two fronts. One is the continuous improvement work that we continue to do but also to look for structural cost changes. And we have several of those that we are working on that we hope to be able to act on over the next several years that will allow us even when we have to file rate cases, and we'll eventually have to start filing rate cases, to make sure they are as small as possible.

Operator

We will take our next question from Paul Patterson from Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

Can you hear me?

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

Hi, Paul.

Paul Patterson - *Glenrock Associates - Analyst*

How you doing? Most of my questions were answered but I wanted to touch base briefly. I'm sorry if I missed this. The industrial -- the power industrial -- there was a write off I think and I missed what caused that?

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

We had a plant that was in Michigan that was plant that had been converted from a coal plant to a gas plant to service General Motors complex basically, that through the restructuring one of the things that happened when they went bankrupt they closed that complex. And they -- the plant basically had a dedicated customer. We worked for a couple of years to try to retool the plant and we just including moving it to a biomass and we couldn't make it work. In terms of the economics. So that plant will not close and it was written off.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. And then I think there was a gain last year. I don't know if it was in power industrials. Do you know what that was? I just noticed in the income statement there was -- that you did have some sort of asset improvement.

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

We will have to follow up afterwards.

Paul Patterson - *Glenrock Associates - Analyst*

The tax rate, it seems like it's been declining and is that could you elaborate what's causing that and what the outlook again is for 2013.

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

I believe that the one thing that is flowing through there is tax credits and including the wind tax credits that are coming through the income statement. Peter --

Peter Oleksiak - *DTE Energy Co - SVP Finance, Controller*

It's the wind and there are some for the REF credit that we have flow to us.

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

That were not--in some cases we are selling partnership interests to. We are not going to take all of the credits but there are some REF credits and the wind credit from the electric business.

Paul Patterson - *Glenrock Associates - Analyst*

And that makes sense. Then the following up on the question that Kit was asking. The O&M benefit that's associated with benefit reduction and that's -- again is that associated with retirement benefits and the sort of MPV of the reduction of that? Is that what that is?

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

What happened is we changed our delivery method on retiree benefits for retirees over a certain age. And they basically get their benefits through a Medicare exchange now. When you have a significant change like that the accounting rules trigger remeasurement. So we had a remeasurement and you remeasure your liability. We remeasured our salary liability at the end of the year and the represented liability at the end of March. And then the way the accounting works you take that MPV benefit and amortize it back into your income statement over a four year period. Thanks so much.

Operator

We will take our next question from Andy Levi from Avon capital.

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

Hi, guys. How are you?

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

Good morning.

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

In 2017 you said $1 billion in net income, right, if I heard correctly? Wouldn't that imply more of a 7%-plus kegger off of your '13 number. Not the 5% to 6%?

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

And there is actually a slide that we actually included in our Analyst Day that described--our philosophy here we do our planning process if you can have all of your bottoms out -- equal to your aspiration it doesn't really give you a lot of cushion. So actually we do put in to our overall projections a contingency. And all that is just to give more certainty to our investors around that 5% to 6% earnings growth.

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

I wanted to make sure I was doing the math right. Thank you.

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

Thank you.

Operator

We have no further questions in queue. I would like to turn it back to our speakers for any final or closing remarks.

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

I want to thank everyone for joining us again this morning. I hope you all have a great summer and we look forward to seeing you in the fall. I think our next public event is early in September at the Barclays conference. So take care and we will talk to you later.

Operator

And this does conclude today's conference call. Thank you for your participation.