

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DTE - Q1 2015 DTE Energy Co Earnings Call

EVENT DATE/TIME: APRIL 24, 2015 / 1:00PM GMT



CORPORATE PARTICIPANTS

Anastasia Minor *DTE Energy Co - Executive Director, IR*

Peter Oleksiak *DTE Energy Co - SVP and CFO*

Jeff Jewell *DTE Energy Co - VP and Controller*

Mark Rolling *DTE Energy Co - VP and Treasurer*

CONFERENCE CALL PARTICIPANTS

Michael Weinstein *UBS - Analyst*

Daniel Eggers *Credit Suisse - Analyst*

Matt Tucker *KeyBanc Capital Markets - Analyst*

Andrew Weisel *Macquarie Capital Securities - Analyst*

Shar Pourreza *Guggenheim Partners - Analyst*

Greg Gordon *Evercore ISI - Analyst*

Michael Dandurand *Goldman Sachs - Analyst*

Jonathan Arnold *Deutsche Bank - Analyst*

Paul Patterson *Glenrock Associates - Analyst*

Andy Levi *Avon Capital Advisors - Analyst*

PRESENTATION

Operator

Good day everyone and welcome to the DTE Energy first-quarter 2015 earnings release conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Anastasia Minor. Please go ahead

Anastasia Minor - *DTE Energy Co - Executive Director, IR*

Thank you, Dana, and good morning everyone. Welcome to our first-quarter 2015 earnings call. Before we get started I would like to remind you to read the Safe Harbor statement on page 2, including the reference to forward-looking statements.

Our presentation also includes reference to operating earnings, which is the non-GAAP financial measure. Please refer to the reconciliation of GAAP net income to operating earnings provided in the appendix of today's presentation.

With us this morning is Peter Oleksiak, our Senior Vice President and CFO, Jeff Jewell, our Vice President and Controller, and Mark Rolling, our Vice President and Treasurer. We also have members of our Management team with us to call on during the Q&A session. I would like to turn it over to Peter to start our call this morning.

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Thanks, Anastasia and good morning everyone. And thank you for joining us today. I hope everyone is enjoying the start of the spring season. This is definitely my favorite time of year.



I like how the weather is gradually getting warmer, especially after going through another cold winter, but as many of you know the real reason I like this time of year is that it brings in another baseball season for my Detroit Tigers. I said on our year-end call that I would provide an update, and I'm excited to report that the Tigers are starting out the season with one of the better records in baseball. We just came off a pretty tough series with the New York Yankees, so hats off to the Yankees.

There is a saying in baseball that you can't win the pennant in April, but you can lose it. The Tigers have set themselves up nicely the first month of this season.

Sitting here in the middle of hockey town I also have to mention the Detroit Red Wings and their 24th consecutive playoff appearance. We are hoping for a deep run in the playoffs.

Now I'd like to transition from talking about the sports teams in Detroit to DTE. Let me start first by saying that DTE is certainly positioned to have a good year, as well.

Jeff and Mark will be going through first quarter results in more detail, but I will just say that we had a very successful quarter and are on track to achieve our earnings and balance sheet targets in 2015. Before we move to quarter results I would like to do a quick overview of our business strategy, as well as some highlights of what's happening at DTE and in Michigan.

We can move on to slide 5; this slide provides an overview of our business strategy and investment thesis. Our growth plans for the next 10 years at both utilities are highly visible.

Our electric utility growth is driven by environmental spend in the near term and renewal of our generation fleet in the longer term, which will be the natural replacement of our aging coal fleet. Our gas utility growth is driven by infrastructure investments and the mainline pipe replacement.

Complementing our utility growth are meaningful growth opportunities in our non-utility businesses, which provide diversity in earnings and geography. Our two utilities are deploying capital in a very constructive regulatory environment, and we are working hard to earn this constructive environment every day.

Our efforts begin with a highly engaged work force. We found out last week that we won the Gallup Great Workplace award. We're the only utility to win that award, and actually we won it three years in a row.

We also have a continued focus on continuous improvement. The combination of these two, employee engagement and continuous improvement, enables us to continue our cost savings track record and our utility's ability to consistently earn their authorized returns.

We also continue to focus on operational excellence and customer satisfaction that we believe are distinctive in our industry. We have certainly seen positive results on this front as currently DTE Gas is ranked highest by J.D. Power among our peers for residential and business customer satisfaction.

Our dividend continues to grow as we grow earnings, and our goal is to maintain a strong BBB credit rating. This strategy provides for consistent 5% to 6% annual EPS growth.

Slide 6 gives you some highlights of progress in 2015. Let me start first with Michigan's energy policy. This is a major area of focus this year, and I know that the people on this call are very interested in a status update.

I feel there is positive momentum for constructive legislation. We expect this to occur by the end of the year and quite possibly by mid-year. This is the priority of the Governor and he called out publicly the need to get legislation done this year.

The house lead, Aric Nesbitt, has introduced legislation, and the Senate lead, Mike Nofs, is about to. The process is in full motion. I will touch more on energy policy in a few minutes.

Quick update on the various rate filings for our two utilities. We expect a rate order for our electric cost of service filing by June. This filing would deliver refined cost of service rates to our customers, and our business customers will see sizable rate reductions.

The rate case process is ongoing for electric general filing that we put in at December of last year. This is the first rate case we have filed in four years and is predominantly a recovery of the \$3 billion of capital investment deployed since our last filing.

We expect to self-implement rates in early July and receive a final order by the end of the year. For DTE Gas we expect to receive an order this year for expanded infrastructure recovery mechanism application that if approved will allow us to double the annual miles of our main line replacement program.

As you know DTE Electric completed the acquisition of a 700-megawatt gas-fired peaking plant earlier this year. We also received the results of our recent RFP for up to 350 megawatts of additional peaking generation and are currently in late stage negotiations. We look to announce the transaction next month and close this transaction later this year.

With this purchase our full-service customer's capacity requirements will be covered during the summer timeframe. We felt that it was very important to secure Michigan's based generation for our full-service customers given the projected capacity shortfall in the state of Michigan next summer.

On the non-utility front we are definitely moving on all cylinders with progress on a number of projects. In our gas storage and pipeline business we are working through the details of a successful open season for the Millennium Pipeline.

We've talked about this potential expansion given the needs of the East Coast LDCs and the critical role the Millennium Pipeline plays in delivering Marcellus gas to market. This is another major milestone for our gas pipeline business and helps firm up future year growth. We will share the details of the expansion once we are through finalizing commercial terms of the contracts.

For our NEXUS Pipeline we have enough commitments and additional prospects to move forward with a 1.5 Bcf pipe. Currently we are progressing through the pre-filing process quite nicely. Most recent activity is around finalizing right of ways and the final path for the pipe.

Our goal is to file the FERC application early fourth quarter of this year. We also expect a fourth quarter in-service date for both the NEXUS Pipeline as well as the Millennium expansion I touched on earlier.

In our power and industrial segment we have a number of projects moving along, including an 8-megawatt on-site cogeneration project that went into service this quarter. For our REF business we have signed a contract to operate a third-party REF facility that begins operations in the second quarter of this year.

This operating agreement will run through 2020 and has already been included in the guidance we provided. Regarding REF locations, we are continuing to work on the relocation of our ninth unit and expect this later this year, as well as potential optimization opportunities with our other units.

We are off to a strong start across our portfolio businesses and we are optimistic on having another successful year in 2015. Let me now move to updates on Michigan economy and the update of energy policy legislation.

On the road we get asked quite a bit on how the economy is progressing in Michigan and with the city of Detroit. On slide 7 is a positive commercial update for both. We continue to see economic momentum in our state.

Michigan's unemployment rate in March was 5.6%, which is the lowest since September 2001. Year over year Michigan's unemployment rate has dropped a full two percentage points. This is the second-largest improvement in the country.



We continue to see improvement in other economic indicators, including increases in residential customer and business customer accounts, and our forecasts show this trend continuing. You can see on the page that Michigan is showing growth by moving up eight spots in the state ranking of real gross domestic product.

Michigan now is in the upper 50% of all states in terms of growth. Also I want to highlight the city of Detroit's economic rebirth. I believe this city has come a long way since the bankruptcy filing on many fronts.

One indicator that we show on this slide is that Detroit's metro area ranking number eight in the US for the number of new expansion projects. The city's rebirth is largely due to the strong leadership we have in the city. Detroit Mayor Mike Duggan is very focused on the financial and operational strength of this city. DTE, as well as other city partners, are working with them to help continue this momentum.

Moving on to slide 8, I'm now going to turn to an update on energy policy. As I mentioned earlier Governor Snyder has made it clear that energy policy is an important legislative priority for him this year.

He called out the need for new legislation in his State of the State Address and provided more detailed goals in his energy message in March, highlighting the significant transformation in generation sources that our state will undertake over the next 10 to 15 years. Michigan also has strong leadership in both the House and the Senate on energy policy.

Representative Aric Nesbitt chairs the House Energy Policy Committee. We are confident that he thoroughly understands the future energy policy needs of our state. Representative Nesbitt introduced legislation in March that is consistent with the Governor's goals of reliability and adaptability.

He also recommended the elimination of the broken retail access program we have here Michigan, which we support. Senator Mike Nofs chairs the Senate Energy and Technology Committee and is very seasoned when it comes to energy policy.

He is one of the principal architects of the Michigan 2008 energy legislation as a member of the House back then. He will be introducing legislation shortly. In a recent interview he indicated that it will include design changes to the retail access program to make it more fair, and will also contain a longer-term generation integrated resource planning process, which will give us up front review and approval of our coal plant retirement and replacement.

We expect legislation to be completed this year, and are confident that Michigan has the strong leaders in place that understand energy and utility dynamics and will provide this year constructive legislation for Michigan's future. In a minute I'll turn the call over to Jeff or Mark to review the quarter results. Before that I just want to highlight that we are on track to achieve our earnings guidance.

So on slide 9, this slide shows our EPS history and our target of 5% to 6% growth. As I mentioned before we expect to grow our dividend with earnings. The chart shows our current 2015 guidance midpoint of \$4.60 with the next page showing our earnings guidance by segment.

So you can see on slide 10 the we are holding our EPS guidance range of \$4.48 to \$4.72 for 2015. This slide shows 2015 year-to-date actuals compared to the full-year guidance. Just like last year weather favorability helped provide a strong quarter for the utilities, particularly on the gas side, as we again had one of the coldest winters on record.

Our non-utilities also had a strong first quarter. Jeff will take you through the details of our quarter results shortly. Like last year we will reserve this first quarter favorability as contingency for summer weather variability. The bottom line, there are no charges in guidance at this time but we're off to a strong start.

And with that I would like to turn the call over to Jeff Jewell, our Vice President and Controller, to provide more details on the first-quarter results.

Jeff Jewell - DTE Energy Co - VP and Controller

Thanks Peter and good morning everyone.

Let's turn to slide 12 to review the quarterly earnings performance. For the quarter DTE Energy's operating earnings were \$1.65 per share. And for reference our reported earnings were \$1.53 per share.

You can find the reconciliation of the first quarter reported to operating earnings on slide 24. As you know Michigan and the rest of the Northeast in the first quarter of both 2014 and 2015 experienced significantly below normal temperatures, including setting a couple of records. For us the majority of the weather fluctuations can be seen in our gas segment.

Here are a couple of data points. The first quarter of 2014 set the record for the coldest quarter in over 60 years. The first quarter of 2015 was the third coldest, and February itself set the record for that month. Now for the quarter-over-quarter results, our growth segments first quarter operating earnings in 2015 were lower by \$10 million, or \$0.06 per share.

The electric segment was equal to the first quarter of 2014. This was primarily due to fewer storms year-over-year, which drove lower operating maintenance expenses offset by increased rate base growth costs, driven by increased capital investments. The gas segment was lower by \$18 million, driven by the extreme weather experienced in the first quarter of 2014.

The major contributors to the quarter-over-quarter decline were the weather at \$11 million and weather-related storage and transport of \$7 million. Gas storage and pipelines earnings were \$6 million above the prior year.

This increase was primarily due to the volume growth in the Bluestone Pipeline and Susquehanna gathering assets partially offset by weather driven storage earnings in 2014. Our power and industrial project segment was up \$18 million versus 2014. A good portion of this variance was due to our REF business.

As we saw last year, the performance in REF can vary depending on the underlying volumes and the timing of new relocations. As a result we expect much of the REF favorability to reverse out over the balance of the year, more than offsetting underlying growth from new relocations and projects.

In addition we do expect some of the \$18 million of favorability to flow through from growth in our renewables and on-site businesses related to new investments that came online in 2014 and early 2015. Our corporate and other segment came in unfavorable by \$16 million versus last year. This variance is due largely to an effective tax rate adjustment, which will reverse within the year.

As a result we remain comfortable with our earnings guidance range for this segment. Again the overall growth segment results for the quarter were \$282 million, or \$1.58 per share. At energy trading operating results for the quarter came in at \$12 million with economic net income of \$20 million. Both the power and the gas business lines contributed to these results. Please refer to page 23 of the appendix to review energy trading standard reconciliation page which shows both economic and accounting performance.

That concludes the update on our earnings for the quarter. I would like to now turn the discussion over to Mark who will cover cash flow and balance sheet metrics.

Mark Rolling - DTE Energy Co - VP and Treasurer

Thanks Jeff and good morning to everyone on the call.

Let me open by saying that our cash flow and balance sheet remained strong and continued to support our long-term growth plans. I'm going to begin on slide 14 with a look at our cash flows through the first quarter of the year. Cash from operations in the first quarter is \$800 million, which is up from the first quarter of last year. The favorability we're seeing is spread across several business units and most of it is timing related. So we're sticking with our guidance of \$1.7 billion of cash from operations for the full year.

Capital spending is also higher in the first quarter due to increased investments at the electric utility, partially offset by lower capital spending at our non-utility businesses. We issued \$500 million of long-term debt in the first quarter which drove a reduction in our commercial paper balance.



And somewhat unceremoniously in the first quarter we made the final payment on the securitization bonds. Back in 2001 we issued \$1.8 billion of securitization bonds to recover the costs of our Fermi 2 nuclear plant and those bonds are now paid off.

Moving to slide 15, which lays out our capital investments in a little more detail. DTE Electric CapEx is higher due to our \$240 million investment in a 700-megawatt gas peaker in January of this year. And compared to last year CapEx at our non-utility businesses is down in the first quarter. But that's just the result of how the investments show up across the quarters. We refer to that as the lumpy nature of our non-utility projects.

For the first quarter capital spending is on track to our plan and in line with our full-year guidance of \$2.5 billion to \$2.6 billion. Let me wrap up on slide 16 with a look at our balance sheet metrics.

Our plan for 2015 is to maintain our strong balance sheet and end the year within our targeted range for both leverage and FFO to debt. In the first quarter we issued nearly \$200 million of equity through our internal mechanisms and that fulfills the equity needs for this year, and we continue to plan for \$800 million to \$900 million of equity through 2017.

To fund the growth at DTE Electric we issued \$500 million of 30-year debt at a very attractive rate. In fact it's the lowest rate 30-year debt we've issued since the Eisenhower administration.

As of the end of March we had a healthy \$1.9 billion of available liquidity, and earlier this month we successfully amended and extended our credit facilities, increasing the size to \$1.9 billion and extending the term to April 2020. And now I'll hand the discussion back over to Peter to wrap up.

Peter Oleksiak - DTE Energy Co - SVP and CFO

Thanks, Mark.

I'm going to give you a quick summary of slide 18 and then open the line for questions. You just heard we had a very strong first quarter and we remain on track to achieve our earnings guidance for 2015. We anticipate successful outcomes this year for both our utility regulatory filings, as well as Michigan's energy policy reform. Our balance sheet and cash flow metrics remain strong and our investments in our utility and non-utility businesses support our target 5% to 6% EPS growth going forward.

I'd like to thank you all for joining our call this morning. And now I'd like to open it up for any questions that you have. So Dana, if you want to open up the lines I would appreciate it.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Weinstein, UBS.

Michael Weinstein - UBS - Analyst

Good morning. How are you doing? Good quarter. The first question I have is how does this positive quarter affect your future lean initiatives later on in the year? I'm just wondering, and I know it's kind of early already and we have the summer to get through, but just wondering if that, how you expect that to impact things?



Peter Oleksiak - DTE Energy Co - SVP and CFO

As we've mentioned on this call in the past and when we're on the road we go into every year with three plans, a base plan, a lean plan, and an invest plan. For each of those we wait for different conditions to see when do we strike.

Weather normal would be the base plan. Where we're at right now with the weather favorability is we are actually looking at investing potentially.

So we are going through the process right now in our gas utility in particular going through the list to understand what the potential investments we can make there with the idea of making those investments to help the long term assets and operational excellence and consistently earning our authorized returns there. So probably the short answer there is at least at this moment we don't see lean plans, having to strike that our lean plans. More than anything it will be some invest in particular in our gas utility.

Michael Weinstein - UBS - Analyst

And I just have another question on NEXUS, I'm wondering how you're seeing shipper demand and also just LDC demand and other demand shipping up in the region given the low gas prices, low oil prices, lower rig counts?

Peter Oleksiak - DTE Energy Co - SVP and CFO

We are continuing to see strong interest as that region has continued to get drilled up and evolve. There is an increased capital allocation though the shippers overall have dropped their level of capital that they're spending.

But most of them if they have investments in this area have reallocated more capital to this region. So we are seeing that. So we are continuing to see interest coming through on both the shippers and the LDCs.

Michael Weinstein - UBS - Analyst

Is that a reflection of -- that the regions you are in are more dry versus wet or is there an advantage that you have?

Peter Oleksiak - DTE Energy Co - SVP and CFO

We are on the Marcellus with our Bluestone Pipeline and Millennium. That's definitely a very prolific shale play, low on the dispatch curve.

And our NEXUS pipeline is going to Utica shale, which again is very prolific and low on the dispatch curve. So there is a lot of interest of shippers as wells are getting drilled and the capital is getting allocated there to get their gas to market.

Michael Weinstein - UBS - Analyst

Got you. One final question would be do you guys expect that legislation could be finished by June or do you think it's more of an August project?

Peter Oleksiak - DTE Energy Co - SVP and CFO

There is some probability that it gets done by mid-year. The Governor has been pretty public and that is his goal. We're planning on it getting done by the end of the year.

That there is -- making sure, we want to make sure it goes through its normal process. As you are seeing out it is progressing nicely and it's going like other legislative processes where there's a lot of different proposals out there.



They need to work through those and reconcile those. So I would say there's some chance mid-year, most likely it will be done later this year.

Michael Weinstein - UBS - Analyst

Okay, thank you very much.

Operator

Daniel Eggers, Credit Suisse.

Daniel Eggers - Credit Suisse - Analyst

Good morning guys. Just on that last question on the legislation, I guess the Governor's talking about this fair choice concept. When you guys look at the House and Senate bills do you see interest in those two because they've been a little more -- different opinions what should happen.

Are you seeing them converging toward what the Governor is laying out? And is there the prospect that we could see a new version of legislation coming sometime soon?

Peter Oleksiak - DTE Energy Co - SVP and CFO

It's tough to say where this is going to end. One thing that we're actually happy to see is that the legislation that is getting the most momentum and support has some sort of fix to this broken retail access program we have in Michigan.

I mean there are various ways you can fix this program Aric Nesbitt has put out there. How do we maybe completely eliminate the flawed retail access program? His focus is on the ongoing reliability and capacity needs for the state.

We support that plan, but we're also happy to see that both the Governor and Senator Nofs are also focused on retail access and how unfair it is. At this point it's kind of tough to say where we're going to end up on it, but we're just happy that the retail access program is getting worked on.

Daniel Eggers - Credit Suisse - Analyst

Well zone seven wasn't a big capacity price this auction. Obviously the price in Illinois was a pretty dramatic change. How is that affecting how you guys are looking at resource adequacy and adding capacity to be owned by DTE versus contracted and what level of attention has that gotten at the Commissioner or down in Lansing?

Peter Oleksiak - DTE Energy Co - SVP and CFO

The recent auction and MISO, I know there was a bit of confusion on that or at least in terms of where do the prices come in. It came in as expected. The planning cycle that they were planning for when it goes up all the way up until the summer of next year, the capacity shortfall that we are anticipating will be in the summer of next year, 2016. And that's a 2016 and 2017 planning cycle for MISO. So those results came in as expected.

What we saw down in zone four is what we're going to anticipate we're going to see in zone seven, where year over year you saw a pretty dramatic change. I think it was almost a factor of 10 of capacity prices with the shortfall that occurred there.



So those, the auction and seven came in as expected and we're expecting a significant increase. One other nuance that pushed this until next year is there was an extension with some retirements in our region for a few months. That literally really helped us bridge the capacity all the way up into the edge of next summer.

Daniel Eggers - *Credit Suisse - Analyst*

I guess again Peter with the potential for very meaningful increase in capacity prices for next year, are you guys using that or having those conversations with the commission and others to say we need to be doing even more to get ahead of this from an owned and new build resource perspective?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Conversations we are having with them is really highlighting the need for new generation in the state, this flawed choice program where the capacity has not been -- is not being built for them. It's really helping us highlight this retail access issue, that more than anything.

The results of that retail access program, I know we've talked about this on the call, we'll see if we get some load coming back to us. If we do we will have to figure out on a short-term basis how we satisfy that load demand, then longer-term we'll roll it into our integrated resource planning process.

Daniel Eggers - *Credit Suisse - Analyst*

Last one I guess when we look at the P&I results obviously it was a really good quarter relative to plan. How much of the probably the upside in the quarter were things that were period specific, whether it be better trading opportunities, and how much of it is a recalibration operated? Are you guys seeing better performance than maybe you thought when you put out guidance earlier?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

The main difference, the main -- and Jeff was highlighting this in his talking points, is our REF business. That is tied to coal plant production and the variability around that coal plant production. The variability in that coal plant production is tied to when outages are taken at the coal plants and when they're being dispatched.

And that's depending where they're at on the dispatch curve. So you do see variability that occurs during the year on those coal plants. So we did see on a quarter-over-quarter basis more coal plant production.

We are anticipating relatively normalized production for the balance of the year, so we will see that favorability bleed off for the balance of the year. Underlying that there is some growth.

We do have growth in our renewable projects. We have some wood waste projects came online.

We're going to get a full year's annual growth out of them. Some landfill gas projects on line as well as what was mentioned, the 8-megawatt cogeneration plant as well.

Daniel Eggers - *Credit Suisse - Analyst*

Got it. Thank you, guys.



Operator

Matt Tucker, KeyBanc Capital Markets

Matt Tucker - KeyBanc Capital Markets - Analyst

Good morning, congrats on a nice quarter. With respect to the intact guidance, it sounds like you had some timing issues in the quarter with corporate and the REF units that sort of offset. So assuming you have normal weather for the rest year, is it fair to say you're at least on pace to beat the midpoint of guidance with the weather benefit you have? Or are there some other offsets that we should be thinking about?

Peter Oleksiak - DTE Energy Co - SVP and CFO

With one quarter in it's-- one thing as you know what we like to do especially with the summer ahead of us in our electric business and the variability with the summer timeframe we like to hold on reserve any type of contingency around that. We are starting off strong at our gas utility. There in particular we make the judgment call on how much do we want to reinvest that into the gas utility.

And we are in a stay out period right now in terms of rate filings. One of the ways that we help stay out of rate filings is reinvest and go lean when we can with the gas utility. And then for our non-utilities, we mentioned the P&I segment, most of that was timing.

We're expecting that to come back in from a guidance perspective. Our gas storage and pipeline business, we do have additional incremental volumes that we did see in the quarter.

So they're off to a strong start, but there's volume variability that still could remain in the balance of the year. So we're kind of holding that favorability right now for that potential variability.

So I guess its a long-winded answer. We are feeling positive about the quarter, and right now we're just reserving that favorability for the balance of the year.

Matt Tucker - KeyBanc Capital Markets - Analyst

Got it, thanks. And then it looks like your electric weather normal sales were down about 1% in the quarter year over year. Could you just give us a little color on what you think is going on there in particular, given what sounds like a pretty healthy and improving economy in your territory?

Peter Oleksiak - DTE Energy Co - SVP and CFO

I'm going to ask Jeff Jewell to answer that question.

Jeff Jewell - DTE Energy Co - VP and Controller

Hi Matt, it's Jeff. Our overall view of the forecast is about 0.5% for the full year, and that's kind of what our long term is. And so what we're seeing in the quarter is sort of one-time outages and retooling in the auto sector and also the steel sector.

Again we're characterizing it as timing just for when they were planning on doing those and sort of what their balance of the year production is going to be. So again we're looking at about 0.5% growth.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

Got it, thanks. Then just given how weak gas prices have been so far this year, and look likely to remain at least through this summer, just update us on the Bluestone system, what you're seeing there and if there's any change to your growth plans or expectations.

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

We are not seeing any impact on the gas prices with our Bluestone Pipeline. We did sign a new agreement with Southwestern. We mentioned that last year and it really is some northern acreage around our Bluestone Pipeline.

We're doing the gathering for them there. That part of the Marcellus shale in particular is very prolific, and so they are very bullish around getting the drilling done there. Volumes are coming in strong as well. No impact.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

Thanks a lot, guys.

Operator

Andrew Weisel, Macquarie Capital.

Andrew Weisel - *Macquarie Capital Securities - Analyst*

Good morning, everyone. First question on the Governor's energy speech. For retail open access he didn't talk about reregulation but talked about this five-year commitment. And I don't know if there are some other options that would be somewhere in between, like potentially an interruptible tariff for customers switching back. If the final ends up kind of in line with the Governor's suggestions, how much of the load that has switched do you think might return over the next few years?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Andrew that's a good question but probably a difficult one to answer at this point in time. I don't think we'll get into the details.

If it ends up being more of a design change with the capacity commitment as well as return provisions that are more fair to our full-service customers, it will be a choice-by-choice basis in terms of the customers currently on the program itself. I would anticipate some of that load coming back before people sign the bottom line of that new type of structure.

Some could remain. It would be -- until you get into details and the economics and the decision-making process with the individual customers it would be tough to predict.

Andrew Weisel - *Macquarie Capital Securities - Analyst*

Fair enough. Then on the Governor's proposal for energy efficiency, pretty ambitious targets.

How do you think that might affect your weather normalized load growth outlook? And would your expectation be that you would continue to get revenue recovery and incentives, or is that something being debated?

Peter Oleksiak - DTE Energy Co - SVP and CFO

The energy -- where energy efficiency is going is one area of focus within this legislative process. I know we talk a lot about the retail access piece of this, but the energy efficiency will be discussed just this week. Some Democrats introduced some bills around energy efficiencies and wanting to increase energy efficiencies.

The Governor has mentioned a big part of his focus is energy efficiency. We like energy efficiency, it's good for our customers, it lowers customers' bills, and as we're putting a new generation in place replacing a fully depreciated generation it helps from a bill and total rates perspective.

From a weather, a load perspective, Jeff was mentioning the 0.5% growth. We are assuming some element of energy efficiency and that 0.5% growth probably up to 1%. So it really would depend on the outcome of this energy efficiency program, what's the requirements of that and is it more than above what we already have embedded in our long-range forecast for sales growth?

Andrew Weisel - Macquarie Capital Securities - Analyst

Okay, very good. Then on NEXUS, first question is any update on ownership structure and when Enbridge might make their decision?

Peter Oleksiak - DTE Energy Co - SVP and CFO

The update is Enbridge is still considering ownership of the pipe. They are participating in the pipe under LDCs, but they have expressed obviously they like the pipe itself. They've expressed it on a recent year-end call as well.

But there's still considering it. It's going through the normal decision-making process for them. If they are not in the pipe we get 50% ownership of a great project, so we're okay with either outcome.

Andrew Weisel - Macquarie Capital Securities - Analyst

Very good. In terms of NEXUS, it pretty much seems like it's a go at this point pending all the FERC approvals and filings, how do you think about that NEXUS system holistically and what it might mean for longer term growth once it's in service?

Peter Oleksiak - DTE Energy Co - SVP and CFO

The NEXUS Pipeline, when I think about the NEXUS Pipeline I always like to refer back to the Millennium Pipeline as the blueprint for that. So the NEXUS Pipeline will grow and will become a valuable asset for us as the Utica shale production grows and develops and the gas needs to get to market by those shippers.

So we're anticipating at some point, maybe in the future we can set up for future expansions on NEXUS. That's going to help NEXUS as well as Vector, which NEXUS ties into. We also have skills now at -- on developing laterals and gathering, so we're hoping opportunities around NEXUS as well on the laterals and gathering projects.

The great thing about those projects is that the gathering project you make money on that, it goes into a lateral which helps make money on that, it goes into NEXUS, helps make money on that. It goes into Vector, helps make money on that. So there's an amplification of value to that value change. So that's how we're seeing NEXUS will progress over the next few years after it's in service.

Andrew Weisel - *Macquarie Capital Securities - Analyst*

Great. Then very quickly just a modeling one. The corporate taxes, there was some timing issues. Any sense of over the next few quarters when those would reverse?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

The effective tax rate, the way to think about that is we had strong income in the first quarter, we're holding our total year forecast the same. So you're really seeing a flush of taxes, a retiming of taxes, a profile in the first quarter. So we are -- if you hold your total year forecast the taxes will rebalance out in the second, third, and fourth quarter.

Andrew Weisel - *Macquarie Capital Securities - Analyst*

Evenly though or is there -- do you have any sense of when that might happen if it's lumpy?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

It will follow the income profile for those quarters. So I said it could go, so my sense is, it may be a little bit backend loaded given our gas utility, lower earnings in the second and third quarter.

Andrew Weisel - *Macquarie Capital Securities - Analyst*

Thank you very much.

Operator

Shar Pourreza, Guggenheim Partners.

Shar Pourreza - *Guggenheim Partners - Analyst*

Good morning, Peter. Let me ask you on ultimately what gets approved with Choice, whether it's the House, Senate or what the Governor is proposing, is there any updates on when we could potentially get some guidance around how much generation you could potentially build as a result of the 3 gigs of shortage?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

It will be -- once we understand the final design, then there will have to be at that point in time some type of period to understand what customers under the total elimination of this broken program it will be apparent. We have 900 megawatts out there on Choice. There's some contracts that they would have to work through, so that would all come back over a period of probably a three-year period.

Any other design it really will be a case-by-case and really understanding what customers stay on Choice what customers come back to us. It would be some period of time after the legislation has passed, maybe a few months as that's getting absorbed for us to -- and as soon as we know that we would give you guys an update in terms of what does this mean, in terms of additional megawatts that we're going to have to serve.

Shar Pourreza - *Guggenheim Partners - Analyst*

Got it. And then just one housekeeping. On the stronger than expected results in energy trading, should we assume that's going to invert the rest of the year?

Or should we assume stronger results the rest? Or some of the economic hedges going to unwind?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

We are off to a strong start. I can say that. When we look at -- we do target \$20 million to \$25 million of economic net income. So what you are seeing on the accounting results is some of that stronger performance flowing through.

Typically there is seasonality in that business. We do have a good physical portfolio of businesses that serve and deliver gas and electricity so that in the first quarter allow the gas was flowing, which helped out the earnings there.

We're going to see that again in the fourth quarter. So there is some seasonality in that business.

So the next few quarters may be a little bit quieter. But I can tell you that we are off to a good start there. Three quarters to go, that's one of the reasons why we are holding the guidance at zero from accounting.

Shar Pourreza - *Guggenheim Partners - Analyst*

Got it. Just one last question. Michigan state implementation plan under 111D, is there any status there?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

There is. They've been holding some hearings in Lansing around that. So there is some early work being done around that. There is a new agency that's more going to be a policy coordinating agency that's going to be involved in that, working with the environmental agencies as well as the MPSC.

So there's early work that's being done around coordinating and setting an overall Michigan policy that is also lining up with the EPA requirements and having the states file individual plans within that. So the good thing is that there's discussions happening and some really early thinking around what is going to be the structure of the state compliance process.

Shar Pourreza - *Guggenheim Partners - Analyst*

Great, thanks a lot.

Operator

Greg Gordon, Evercore ISI.

Greg Gordon - *Evercore ISI - Analyst*

Good morning, guys. Most of my questions have actually been answered.



But if you'd mind me asking, and perhaps this should be done offline, if I go back to your year-end/Q4 slide deck and look at the \$70 million of operating earnings that you expect to come from your pipeline platform in 2019, it's footnoted that you include a 33% ownership of NEXUS in there. What percentage of that \$70 million of operating earnings is the placeholder for the NEXUS contribution?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

We haven't disclosed that level of detail. But we have disclosed that it's going to be a \$700 million investment, assuming that the 33% ownership interest. And we have given some parameters around returns that we targeted.

Greg Gordon - *Evercore ISI - Analyst*

Okay. I'll follow up with you offline. Thank you.

Operator

Michael Dandurand, Goldman Sachs.

Michael Dandurand - *Goldman Sachs - Analyst*

Congrats on a great quarter. Most of my questions have actually been answered.

But just maybe a little additional color on your sales growth and outlook there. It looks like it was down from what a normalized base is just for the quarter, but maybe some additional color on that?

Jeff Jewell - *DTE Energy Co - VP and Controller*

So what we're seeing is like we said with the 1% that's related to timing mainly in the auto and the steel sectors. They were doing some retooling. There was also a plant in Canada that's down and is retooling.

So obviously there's a little bit of flow onto us here in the quarter. But for the balance of the year all those plants, the anticipation that they're going to be going full out and stuff. And that's what brings our growth back up to our anticipated 0.5% for the full year.

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

And Michael on the residential, we saw this last year as well, when you have this extreme weather you have additional conservation that happens and people will dial it a little bit differently, a little bit lower in their house. So we did see some additional conservation that's playing through the residential segment.

Michael Dandurand - *Goldman Sachs - Analyst*

Got it. Okay. And then somewhat off topic, but to your comments on the Red Wings it was great to see the tradition maintained with the octopus. That thing was enormous they threw out there.

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

We lost in overtime last night though. It's 2-2.

Michael Dandurand - *Goldman Sachs - Analyst*

I don't understand how they get them in the arena. Some innovative people out there in Michigan.

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Thanks.

Michael Dandurand - *Goldman Sachs - Analyst*

Thanks. Congrats again.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold - *Deutsche Bank - Analyst*

Good morning, guys. Just a quick one. On the legislation is it -- obviously you noticed the Governor didn't call for a specific RPS, so just curious whether you think that the eventual outcome will include some sort of explicit higher RPS? And if not what kind of number do think is likely to fall out of your planning?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

A lot of this gets intertwined with the EPA requirements. There was a debate a few years ago do we do more renewable or not in Michigan.

So Washington has determined that we will. So for us to comply with the carbon reductions the EPA has outlined we will be doing more renewables.

Where the support and momentum is going is more having flexibility around that. There will be a process where we're going to be submitting in to comply with the 111D, but there is also going to be needs of the state and how they want renewables to be.

So renewables will be going up. The final amount will be determined by a combination of our 111D filing as well as what the state wants.

I'm not anticipating any type of new standard coming in. It will be more on a portfolio basis, what do we need to do to get cleaner in terms of CO2 and other emissions.

Jonathan Arnold - *Deutsche Bank - Analyst*

But either way you anticipate obviously participating in building some of that, whether it's gas or renewables it will be incorporated in your plan. Is that how we should think of it?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Yes.

Jonathan Arnold - *Deutsche Bank - Analyst*

I did notice in the prepared remarks you mentioned potential opportunities to optimize some of the other REF units, presumably existing ones. Is that potentially significant or more tweaking at the edges?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Probably more on the edge. These units are very scalable, they can handle a lot of different volumes. More volumes is better.

So as we're continuing to look at those units some units that we have at a coal plant, and some sites have multiple units, there may be opportunities to relocate some of those units to higher volume coal plants. It's more on the edge.

Jonathan Arnold - *Deutsche Bank - Analyst*

Okay. Many of the units or is this just a couple of them?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Just a few. A couple.

Jonathan Arnold - *Deutsche Bank - Analyst*

All right, thanks a lot.

Operator

Paul Patterson, Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

Good morning. Just to follow up on a few things. The gas storage and pipeline, you mentioned some timing and you mentioned Bluestone seems to be on track. And I was just wondering if you could just elaborate more on the timing issues that are going to be bringing down the -- just how that's going to flow over the year?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

The timing is our gathering business in particular is volume based from a revenue perspective. Southwestern as I was mentioning is seeing really good volumes in this region, and volumes around the acreage that we are tying or gathering to.

So we're seeing those -- the flush of the incremental volumes come through. We also see there is some variability that does occur sometimes in the balance of the year, the summer timeframe, the decision Southwestern makes around pricing and volume levels.



So that may fluctuate a bit. But I would say we are off to a strong start and some of that potentially could flow through the bottom line for that segment.

Paul Patterson - *Glenrock Associates - Analyst*

But what will drive it down I guess? If you take that \$27 million and you look at what your forecast is, what's going to be, I'm sorry to be so slow on this, but what's driving it down over the next few? Is that just some seasonal situation is what you're talking about?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

There is some seasonality to that business line.

Paul Patterson - *Glenrock Associates - Analyst*

But there's no change in any of the projects' outlooks in terms of --

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

No.

Paul Patterson - *Glenrock Associates - Analyst*

No. Okay. And then on the MISO capacity, I'm sorry, you guys were mentioning sort of a forecast that you guys had and I wanted to make sure I completely understood that in your zone. You expected it to go up how much I think in the following year?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

We don't have a particular forecast for our zone. What I was mentioning is that where the prices came out was where we were anticipating them. It was relatively where we're anticipating to see a sizable price increase in zone seven is for the summer of 2016, which would be next year's next planning year.

What I did indicate is that we did see some results in zone four on a year-over-year basis that came up dramatically; it was almost a 10-time increase. That may or may not -- there's some element or increase will occur in zone seven, but it's probably a good indication what can happen within one planning year when there's a shortfall that occurs.

Paul Patterson - *Glenrock Associates - Analyst*

So I mean I just want to make sure. Are you guys thinking that you might see a similar size, like a tenfold increase in --

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

It's tough to say but we will see a sizable increase.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. Appreciate that. And then just finally you guys were mentioning the sales growth of 0.5% and the Governor -- it wasn't clear to me whether or not the Governor's strong emphasis on energy efficiency was part of that or whether you think that would incrementally make that lower or impact it at all. Do you follow what I'm saying?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

We do in our long-range planning of 0.5% I did mention we do anticipate energy efficiency to -- due to occur and it's probably -- our rule of thumb is probably about 1%. So we're probably at more organic growth of 1.5%. That gets down to 0.5% through energy efficiency.

What I was indicating earlier was that depending on the nature of the energy efficiency programs that are out there, they'll all be relative to our assumption of that 1%. If there's more aggressive energy efficiency that potentially -- it could put down the 0.5% of it.

Paul Patterson - *Glenrock Associates - Analyst*

So the Governor's emphasis on this may lower that, but I guess it's just too early to say? Is that sort of how to think about it?

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

The Governor's message really is aspirational. He really wants us to focus on energy efficiency. The EPA 111D compliance credits energy efficiency, so we also have reason to focus on energy efficiencies, but more than anything I believe he's setting a real good tone around energy efficiency in the state of Michigan.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. I really appreciate the clarification. Thanks a lot, guys.

Operator

Andy Levi, Avon Capital Advisors.

Andy Levi - *Avon Capital Advisors - Analyst*

You can take another question. I'm all set.

Peter Oleksiak - *DTE Energy Co - SVP and CFO*

Dana, I think that may be it.

Operator

Yes, that is it.



Peter Oleksiak - DTE Energy Co - SVP and CFO

Okay. Let me just conclude by saying that I appreciate everybody for joining us this morning. Once again we are off to a good start here at DTE.

Definitely appreciate your continued interest in DTE and hopefully everybody can be voting for and supporting our Detroit-based sports teams. Have a great day.

Operator

That does conclude today's presentation. We thank you for your participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.