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# DTE Energy Co. (DTE)

Q2 2014 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, ladies and gentlemen. This is the DTE Energy Hosted Second Quarter 2014 Earnings Release. All lines have been muted to prevent any background noise, and this call is being recorded. [Operator Instructions]

For opening remarks and introductions, I will now turn the call over to Anastasia Minor. Please go ahead.

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Anastasia Minor  
*Investor Relations, DTE Energy*

Thank you, Doug, and good morning, everyone, and welcome to our second quarter 2014 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 references to operating earnings, which is a 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.

And with that, I would like to turn it over to Peter to start our call this morning.

## Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

Thanks, Anastasia, and good morning, everyone, and thank you for joining us today. Those of you who have talked to me at any length of time on the road quickly learned that I'm a big Detroit Tigers fan, so I feel compelled that with this captured audience and use of air space to give a brief update on my Tigers. They are in first place, seven games in front of Kansas City with 63 games left in the season. Feeling good, but a lot of games left. I am hoping that in our third quarter call, I will be giving a World Series update. And hopefully, I didn't just jinx the Tigers.

In a few minutes, I'll turn the call over to Jeff and Mark, who will be talking – taking you through earnings and cash flow for the quarter and year-to-date. Before that, I will be providing a brief update on what is happening at the company.

I will start on slide 5, which describes our investment thesis, serving as the foundation of success and future growth. At the top of the list is our utility investment plan. Electric investment is driven by environmental spend in the near-term and renewable – and renewal of our generation fleet in the longer term, which is a natural replacement of our aging coal fleet with some more certainty now on retirements given the recent EPA actions.

For gas utility, we have a cast iron main replacement program that will last several decades. I'll talk further about our utility investments in a few minutes.

In addition to our strong utility growth, our non-utility investments set us apart from our peers. We have a strict investment criteria for these businesses where each investment must align with our strategic vision and provide better than utility returns.

The majority of our investments are contracted under long-term contracts to reduce earnings risk, which supports our long-term earnings profile and growth targets. That is the way we like it and, I know, the way our investors like it.

The regulatory structure in Michigan continues to be very constructive, and we know we have to do our part every day to earn that relationship. One way we earn this constructive environment is by using our continuous improvement discipline with cost management in both utilities to extend our time between rate filings.

Another way to keep the regulatory structure we have is to deliver strong operations and high customer satisfaction. We have seen improvements on both fronts over the last few years.

Finally, we have been very consistent throughout the years with our focus on cash and keeping a strong balance sheet, which allows us to maintain our strong credit ratings.

Slide 6 shows the success of our focus on the business strategy I just described. As you are all aware, we recently increased our dividend to \$2.76 on an annualized basis. This is over a 5% increase and marks the fifth consecutive year we have raised our dividend. This is just one of the ways we deliver value to our shareholders, so we are committed to target growing the dividends in line with earnings.

We have a longer-term target for earnings per share growth of 5% to 6%. You can see in the chart that we have achieved a growth rate of over 7% from 2008. With the growth contemplated in our utilities and non-utilities over the next five years, we are approaching \$1 billion of income by the end of this timeframe.

We have delivered solid returns compared to our industry and across broader markets. You can see on slide 7 that compared to market indices, over three years, five years, and ten years, we have outperformed the Standard & Poor's 500 and the Standard & Poor's 500 Utilities, a track record we are very proud of and it is built on the foundation of delivering the results we promise. Our approach is to have consistent outperformance year in and year out.

With the backdrop of our business strategy and our commitment to delivering results, slide 8 provides some detail on our growth opportunities in both the utility and non-utility businesses. A large portion of our growth opportunities are focused on our utility businesses as our utility investment levels are more than double depreciation levels.

Our electric investments are driven by environmental spend in the near-term. In the timeframe through 2030, investments will be driven by the replacement of our aging coal plants, but the timing and level of our investment has been shaped in a way that will fit energy policy at the state and national level. We expect to invest multiple billions in our new generation in this timeframe. We see Michigan's energy policy starting to take shape in 2015 with new comprehensive legislation with flexibility in these energy policies to comply with the recent carbon emissions plans released by the EPA.

For DTE, our plan for a natural replacement of a good portion of our coal fleet with gas-fired plants has been in the works for the last few years, and this fits in with the EPA regulations. We are still working through the details on the timing and level of plant closures. These regulations will most likely accelerate coal plant retirements and be a major input in the establishment of new renewable energy targets. For the gas utility, investments are driven by main renewal, pipeline integrity, and meter move-out.

The gas utility is supported by an infrastructure recovery mechanism which allows for the recovery of the majority of these investments. Growth in our non-utility businesses is supported by growth in our Gas Storage & Pipelines and Power & Industrial Projects segments.

Expansion at the Bluestone will bring total capacity up to 1B by 2016, up from 0.6 Bcf when the pipe went into service less than two years ago. We continue to see progress on the NEXUS pipeline project, with multiple gas and electric utilities and the Appalachian producers committing volume to the project. We are very excited about this investment. And many of you probably took notice of the NEXUS pipeline initiated binding open season earlier this week to allow the additional interested shippers and the opportunity to commit volumes to the pipe. We expected in-service to be in the fourth quarter of 2017. The open season will run through August 21.

Following the open season, final project sizing and partnership structure will be determined, and the next major milestones will be the regulatory approvals. Since much still need to be pinned down regarding final volume commitments; project sizing and often, ownership levels, we are comfortable with our previous provided financial disclosures and our interest in the project. As the project continues to develop in the balance of the year, we will provide project updates as they are available.

We know there are competitors in this region, but we remain confident in the build of this northern flowing pipe that ties right into our existing Vector Pipeline and Michigan-related assets.

To wrap up on the non-utility updates, the relocations of our REF units continues to progress. With the relocation of the eighth unit complete, negotiations are underway for the ninth unit after completion of a test run this summer.

Slide 9 shows our earnings guidance by segment. We are reiterating our earnings per share guidance of \$4.20 to \$4.40. Although weather through June has been favorable for the utilities, our gas utility, in particular, weather variability in the balance of the year is still unknown.

Similar to where we were at the end of the first quarter, at this point in the year we will reserve the year -to-date weather favorability as contingency for weather variability and reinvestment spending in our operations.

Jeff will cover the details on the amount of weather that landed in the first half of the year that is now guidance contingency. He will also cover the potential uses of that weather contingency. So bottom line, there are no changes in guidance at this time, but a strong bias upwards.

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

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### Jeffrey A. Jewell

*Vice President & Controller, DTE Energy Co.*

Thanks, Peter, and good morning, everyone. I will start on slide 11 and the second quarter earnings results. For the quarter, DTE Energy's operating earnings were \$0.73 per share. And as a reference, our reported earnings were \$0.70 per share. You can find the reconciliation of the second quarter reported to operating earnings on slide 28.

For the two utilities, DTE Electric contributed \$0.73 and DTE Gas negative \$0.02. The non -utility segments combined earned \$0.12, with Gas Storage & Pipelines at \$0.10, Power & Industrial Projects at \$0.07, and Energy Trading at negative \$0.05. Corporate and Other had a loss of \$0.10.

Let's move to slide 12 and a summary of the quarter-over-quarter performance by segment. Growth segments operating earnings were up \$27 million or \$0.15 per share for the quarter. DTE Electric was favorable \$40 million quarter-over-quarter, driven by the revenue de-coupler amortization in 2014 and O&M reinvestment that occurred in 2013, but did not reoccur in 2014.

DTE Gas was \$12 million lower as the second quarter earnings profile in 2014 returned to a more normal level with a seasonal loss of \$4 million. Gas Storage & Pipelines earnings were \$2 million above the prior year. This increase was driven by higher pipeline volumes and additional gathering asset growth. This was partially offset by a deferred revenue accounting adjustment.

Our Power & Industrial Projects segment was up \$2 million from 2013. This increase was driven by REF earnings. Our Corporate and Other segment came in unfavorable by \$5 million from last year, primarily due to income taxes. Again, these results in the growth segment provided \$27 million of favorable earnings quarter-over-quarter.

At Energy Trading, operating results for the quarter were negative \$10 million with economic net income of positive \$11 million. Year-to-date results for the business, which are in line with our expectations, were negative \$2 million for operating results and positive \$21 million for economic net income.

As we have discussed previously, Energy Trading is strategically pursuing more physical business, which will tend to create accounting timing differences between economic and accounting results. Page 26 of the appendix contains our standard Energy Trading reconciliation page, which shows both the economic and accounting performance.

I'd like to now turn to slides 13 and 14 and walk through some quarterly details for DTE Electric and then DTE Gas. Starting on slide 13 with DTE Electric, the electric segment had earnings favorability of \$40 million quarter-over-quarter with \$5 million attributable to weather, \$21 million related primarily to the 2014 amortization of our revenue de-coupler liability, \$10 million related to lower O&M expense, which is primarily due to the reinvestment activity that occurred in 2013 that did not reoccur in 2014 and \$4 million mainly due to lower interest expense.

A note on the revenue de-coupler liability. DTE Electric received a commission order on April 1 of this year that approved our request to suspend the amortization of the RDM starting in July through the remainder of this year, and to resume amortization of the balance over the period January through June 2015, thus deferring 50% of the amortization. The amortization for the first half of 2014 equated to \$39 million.

Moving on to slide 14, DTE Gas segment was down \$12 million quarter-over-quarter, which was a return to a more normal second quarter earnings profile for this business. The drivers were normal weather in the second quarter of 2014 versus the cooler-than-normal second quarter in 2013. This weather accounted for \$3 million of un-favorability. The other drivers were O&M of negative \$6 million due to timing of activity from the first quarter, increase in uncollectibles expenses, and lower benefit expenses.

Now, turning to slide 15, which adds some additional context to Peter's earlier comments on DTE Energy's EPS guidance. As you know, we operate and manage DTE Energy as a portfolio and strive to deliver on our stated growth targets.

As a company, we start each year with three budget plans: a base plan and lean and invest plans. This ensures that we are prepared to react to either positive or negative changes in our business environment due to various unforeseen events, including weather. Because of this planning discipline, we wait to see if weather is different than normal before we take action for the balance of the year, which includes guidance revisions.

The chart depicts how we are thinking about our balance-of-year potential weather and other business uses in relation to the year-to-date weather favorability of \$0.27. As of today, July weather is forecasted to be below normal. This supports our discipline of waiting until after the summer months to make balance-of-year decisions. Therefore, we are confirming our 2014 segment mix and earning guidance range of \$4.20 to \$4.40.

That concludes our update for the earnings for the quarter. I'd like to now turn the discussion over to Mark Rolling, Vice President and Treasurer, who will cover cash flow and balance sheet metrics.

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## Mark C. Rolling

*Vice President & Treasurer, DTE Energy Co.*

Thanks, Jeff, and good morning, everyone. I'm going to begin on slide 17 with a look at our cash flows for the first half of the year. Year-to-date cash from operations is \$1.1 billion, which is down a little from 2013. We saw higher weather-related customer payments that were offset by higher purchases of gas, power, and coal that were needed to meet both our current demands as well as rebuilding our inventory levels.

Capital spending was higher than last year due to increased investments at the electric utility, partially offset by lower capital spending in our non-utility businesses. Overall, DTE's net cash is down year-over-year and that's in line with our full year guidance.

Slide 18 lays out our capital investments in a little more detail. The electric utility CapEx is higher, due primarily to increased spending on a refueling outage at our nuclear plant and the acquisition of the Brookfield wind park.

CapEx at our non-utility businesses is down slightly year-over-year, due primarily to [ph] GSP (14:52). This reflects the completion of the Bluestone lateral build back in 2013 and lower gathering-related spending compared to last year.

Let me wrap up on slide 19 with a look at our balance sheet metrics. Our balance sheet remains strong with both leverage and FFO expected to be within the targeted range for the year. We have adequate liquidity with \$1.4 billion of available liquidity at the end of June, and we are taking advantage of the low interest rate environment and have refinanced over \$900 million in long-term debt this year. This will result in nearly \$20 million in annualized interest savings. And our plan to issue no equity in 2014 remains unchanged. We do plan to issue between \$200 million and \$300 million of equity in 2015 and 2016.

Now, I will turn the discussion back over to Peter.

### Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

Thanks, Mark. In summary, on slide 21, we continue to remain on track to achieve our earnings guidance for 2014 with strong results in the first half of the year. We increased our dividend for the fifth consecutive year. Our balance sheet and cash flow metrics remain strong and our investments in our utility and non-utility business will provide our targeted 5% to 6% earnings growth going forward.

I'd like to thank you all for listening to our call this morning. And, Doug, I'd like to open it now [indiscernible] (16:10) participants may have.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from Matt Tucker with Key Banc Capital Markets.

Matt Tucker

*Analyst, KeyBanc Capital Markets, Inc.*

Hi, good morning.

Q

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

Matt.

A

Matt Tucker

*Analyst, KeyBanc Capital Markets, Inc.*

First question, on NEXUS, I just want to get to – cut to the point here. I guess it sounds like you are saying NEXUS at this point is going to happen and it's more a matter of figuring out kind of the size. Is that fair?

Q

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yeah. Let me first say that, yeah, I know there's a lot of interest in this project and there should be. I'd like to say up front that at this point in the project, and we are in confidentiality agreements, so there's not a lot of detail I can disclose – the disclosure would have to be limited.

Obviously, no project really is 100% certain until the pipe is in the ground. There are competitors that have emerged in this region, also with northern path. This really was not completely unexpected given the amount of gas that needs to get out of the region and the urgency of the producers.

And we are still very bullish on NEXUS. We think it's a northern-flowing pipe that makes the most sense since it ties directly into our existing Michigan pipeline infrastructure. And it really minimizes new pipeline build. That makes our pipe very economical and least disruptive on the environmental and regulatory fronts. And so – because once tied into our Michigan infrastructure, gas can flow into Michigan, Chicago, Ontario. And producers really like that optionality. So I'd really say we are still feeling really bullish, but really nothing is 100% certain until we get the project done.

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**Matt Tucker**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

That's fair and I understand you have partners. I guess earlier, you had said you needed to get to at least 0.8 Bcf per day of firm commitments to move forward. You are looking to get at least 0.3 Bcf of that, I believe, from producers. What's your level of confidence that you are at the least that 0.8 Bcf per day?

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**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

As you said, we said from the start of the project that NEXUS would be a 1 B pipe, and we would have a certain amount of commitments before we go forward. We've had enough commitments to move to this very important step in the process, so we are feeling confident at this point in time.

So we will understand through this binding season. In the open season document it did disclose that this pipe is scalable up to 2 Bcf. This binding season really looks to determine the final size of the pipe, also, the finalization of the commitments from the producers and whether we are going to go forward. The next step here would be the regulatory filing process.

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**Matt Tucker**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Thanks. I expect some others will have some questions on NEXUS, so I'll move on. I just wanted to ask about – you issued an RFP for generation capacity earlier this summer. Is there any color you can give us on how that went?

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**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yeah, we issued this RFP back in June. The process and timeline is designed really to run to the end of the year. So we are currently reviewing proposals. The whole idea here is that our electric utility has a current short and also new generation will be needed longer-term. So we have merchant plants in Michigan, and we're looking to keep that generation here in Michigan if it makes sense from a value perspective with our customers. So it is going very well and we're currently reviewing proposals.



Matt Tucker

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Thanks. And just one last one. The eighth REF unit, can you tell us when that went into or when that was placed? And did that really contribute much to second quarter earnings?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes, the eighth unit, it did go in at the first half of the year.

Anastasia Minor

*Investor Relations, DTE Energy*

A

[ph] Yes, just this summer (20:09).

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes, so this summer, Anastasia indicating [ph] when it went in (20:11). And at this point in time, we really did not contribute. It really is in a kind of open ramp-up mode at this point in time, Matt.

Matt Tucker

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Thanks a lot, Peter. I'll jump back in the queue.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Thanks, Matt.

**Operator:** And our next question is from Steven Fleishman with Wolfe Research.

Steven I. Fleishman

*Analyst, Wolfe Research LLC*

Q

Yeah. Hi, good morning.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Hi, Steve.

Steven I. Fleishman

*Analyst, Wolfe Research LLC*

Q

Just first on the utility, when you think about the kind of generation replacement, this RFP and future ones and the shutting of coal, how much of that is in your current CapEx plan at the utility? Or would this all be kind of incremental?

Mark C. Rolling

*Vice President & Treasurer, DTE Energy Co.*

A

Yeah. The way to think about the CapEx in our electric utility is in two timeframes. We have the first near-term flat timeframe. It's really around the environmental compliance, finalizing that, really with the max rule.

We're estimating about \$1.3 billion a year for electric utility. I would say that's still a good assumption around that. We've had put out some disclosures recently on that second five-year window, really, the 2019 to 2024 and the range there was \$1.3 billion to \$2.0 billion.

I'd say at this point, looking at the EPA compliance, it's really going to accelerate the retirements for our coal fleet and essentially have additional spending. So I would say we're more towards the upper end of that \$2.0 billion operating year guidance in that second five-year timeframe. We are in the process of finalizing our details and plans. Our objective is in the fall to provide you more of a detailed update. But that's probably a good rule of thumb for now.

Steven I. Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. And then moving back to NEXUS and I apologize for maybe being a little repetitive. But just maybe you could help us a little bit with the color of from the time you put out the initial non-binding commitment to the announcement that you made this week, we've had some other proposals come out. These commitments that you've gotten, and I guess particularly from producers, were these ones that, to the degree that they were going to go with other pipes, they would have left? Or is there a risk that they are optioning several of these and just going to end up picking one of them? Or did you see, like, some pullout because of the competing pipes? Just any kind of color on the dynamics that occurred here?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yeah. And I think I did mention to you where we are at right now in this process. It does make it a bit difficult to give a lot of details around the nuances with the producers. But I do understand that why you guys are interested and want to see the details here.

We did have enough commitments. And these are kind of real negotiations, talking to producers to go forward with this important step. That's really what I can say at this point in time. So we will understand. And part of this process at the end of this is finalizing those commitments into agreements and understanding is there additional interest in the pipe itself, which really then it would help size up the final size of the pipe.

Steven I. Fleishman

*Analyst, Wolfe Research LLC*

Q

And then on the size issue, in theory, when you said you are using the current one now, I would think that assuming the pipe is going forward, it's either going to be what you have now or bigger in terms of your capital commitment?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

That would be correct.

Steven I. Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. Okay, thank you.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

Okay. Thanks, Steve.

A

**Operator:** And our next question is from Dan Eggers with Credit Suisse.

Matt Davis

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Good morning, guys. It's actually Matt Davis. I just had another follow-up question on NEXUS, and if you guys could provide a little more color around how you see the project competing with other projects in the region? And at what size would be the optimal level to compete with other Marcellus and Utica projects?

Q

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

Yeah. I'll address how we feel our pipe is very competitive. There are competitors and they have emerged recently in this region. We are really providing a northern-flowing pipe. The gas in the Utica is going to go to multiple places and a lot of it will go south. Producers are going to want the optionality to go north and we provide a northern path. And I know other competitors are putting a northern path in place.

A

Our pipe has the least amount of new build needed. We tie strategically right into the Vector Pipeline in our Michigan infrastructure. We think that that really provides a distinct advantage to our pipe, because it really does make it very economical and also least disruptive. There's a lot of regulatory approvals that are going to be needed by the other competitors because of a new pipe build. We also think from an environmental perspective ours is the least disruptive as well. Really can't get into the whole details of the economics, but I can say just the fact that we have a lot less new pipe makes our pipe very economical.

Matt Davis

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Okay. Thank you very much. And then just on the generation needs, can you provide a little bit more color about timing of when you would look to add generation, or if at all, given the shortfall identified by MISO and the possibility of choice going away some time next year?

Q

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

Well, we have indicated that the new generation, the bulk of it will happen post -2019. Yeah, we have this RFP out right now. So if we are able to get from our customers generation at a discount to new build, then that's good value and it keeps merchant generation in the state of Michigan. It will do that. So there may be some timing of new generation happening in this five-year window and it really would be tied to this RFP. We have other options to satisfy that 2016 shortfall in the MISO region that we are at. But we are looking at this point in time, if we can, to get some new – at least a new merchant plant in part of our portfolio mix. But the bulk of the spend will be close to 2019.

A

Matt Davis

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Can you just provide a little bit more color on what you were referring to with the options for the 2016 shortfall?

Q

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

There is purchasing we can do within MISO, some contracts, PPAs, there's other things that we could do. But we feel at this point in time given where the market is at, given merchant plants that are in the state of Michigan the – with choice, I know there's issues and debates around choice, whether choice is going to – if those customers are going to come back. It makes the best sense for us right now to explore purchasing existing Michigan assets if they are available and if they are at a good value for our customers.

Matt Davis

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. Thank you.

**Operator:** And our next question is from Andrew Weisel with Macquarie.

Andrew M. Weisel

*Analyst, Macquarie Capital (USA), Inc.*

Q

Thanks. Good morning, guys.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Good morning.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

My first question is on the Michigan economy. I'm a little bit surprised that it seems like the weather-normalized load growth has pulled back, especially the industrial side a little bit and especially when compared to your neighbors who reported yesterday. Then also, on the gas side, you mentioned increased uncollectible expense. What are your latest thoughts on the local economy? Is there anything that maybe has slowed down a bit relative to the prior trends? Or any higher-level thoughts?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

I'll talk mainly on the economy and then I will hand it over to Jeff to give some of the details on the load and the uncollectibles. The economy, we're seeing continue on very strong in terms of recovery. I know we've been putting out indicators on unemployments – unemployment levels continue to go down. Automotive production continues to be high. Housing starts continue to rise as well. Customer counts in our residential are continuing to increase. So we are still seeing the economic indicators that we have seen over the last few years and those are continuing on. Jeff, maybe you can provide a little color on the load?

Jeffrey A. Jewell

*Vice President & Controller, DTE Energy Co.*

A

Yes, I sure can. Hi, Andrew, this is Jeff. Yeah, so what we're seeing is in the first half of the year some of what we call, probably some weather-related items and also one-time impacts. One, as you know, we had an extremely cold winter. And so what we're seeing on the residential side is a lot more conservation from our customers in the first quarter. And we saw that continue into the second quarter in April and May. And also what we saw in April and May is we did not see any sustained heat. We saw a little bit of heat, but it wasn't like three days in a row kind of a

deal that sort of incentivized people to start turning on their air-conditioning load and those types of things. So we're sort of seeing that as sort of a one-time sort of an event.

And then on the industrial side, what we saw, same thing is the extreme weather. There just wasn't a lot of car sales that were happening. And so the inventory levels were growing at the autos and some of the autos were doing some maintenance around doing some outages. They were also doing production sort of lowering down their production to be able to manage their inventory. There was also some other model changeovers that were happening too.

So going forward for the year, given that, that down a little bit is going to probably flow through the full year. We're looking at about a 0% sort of growth for the full year. But our long-term growth projection is still about that 0.5%. So we're not changing off of those.

And then your other question on the gas side, that one's pretty easy. Again, just because the revenue at the gas side was, obviously, because of the winter, was way up on the revenue side. So, obviously, the uncollectible expense is going to be greater than what it was last year. So that's again just a function of the weather and the higher revenue.

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**Andrew M. Weisel**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Yes, that makes sense, very helpful. My next question is on the EPA carbon policy. If I heard you right, it sounds like you said you're going to be giving an update on your generation plans longer-term later in the year, so looking forward to that. My question is do you see any potential impact on the timing of political decisions around the energy law and particularly issues around renewables or energy efficiency?

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**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

That's a really good question, Andrew. And we still believe there will be comprehensive legislation in 2015. And what's going to be interesting is how – with that comprehensive legislation, the state will be still in the process of determining the EPA compliance on the CO<sub>2</sub>. So there's going to have to be flexibility within that legislation to provide us – to meet those carbon rules. It doesn't make sense to do it all at the same time. They are all essentially interrelated when you're looking at the renewables standard. Even the choice, because the utilities need some certainty of build before we go ahead and build and that we believe at all, there will be some comprehensive legislation, but with enough flexibility to meet the EPA standards.

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**Andrew M. Weisel**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Not to get too cute on timing, but any sense of when during the year that might come out?

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**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

My sense is most likely it would be post-election and most likely be the first half of next year.

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**Andrew M. Weisel**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Okay, great. Then, lastly, an obligatory one on NEXUS. When can we expect updates, it sounds like about a month or so till the open season is over. Should we, in the financial community, expect an update shortly after that or would it be more like around EEI or year-end when the regulatory filings come?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

The update really will occur with the FERC filing process. So we have a 30-day – roughly a 30-day open season. After that, if we're proceeding on the project, we'll do a FERC filing. In that FERC filing itself, there'll be details around the pipe. And I anticipate once we have that FERC filing out there, we'll be reaching out to you guys, providing updates.

Andrew M. Weisel

*Analyst, Macquarie Capital (USA), Inc.*

Q

Great. Thank you very much.

**Operator:** [Operator Instructions] And our next question comes from Julien Dumoulin-Smith from UBS.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Yes, hi. Good morning.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Morning.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

I wanted to follow up just to – I will kick off with NEXUS and then I'll leave it alone. Can you talk a little bit about ownership and participants in the project? It seems a little bit in flux. What are your thoughts about your involvement in the project, giving that up potentially and how that could impact the project as well?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yeah, that's a good question, Julien. On the ownership front, the original MoU with the original partners did expire. So DTE and Spectra are in the process right now of determining ownership levels with other interested parties, including Enbridge. The finalization of the ownership participation will coincide at the same time with the finalization of volumes and the size of the actual pipe itself. So I'd say at this point in time, we are sticking with our prior disclosures of the one-third ownership. But that could change with the finalization of the participation levels of interested parties as well as the size of the pipe.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Great. And just from a timing perspective and trying to juxtapose, the conversation with NEXUS with that of expanded coal retirements, more gas, is this more of a question of timing of when rather than if just in terms of getting this off the ground and the incremental need in the state, if you could comment broadly?

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

For the – I'm sorry, I was distracted here a little bit. Could you answer the – ask the question again?

**Julien Dumoulin-Smith**

*Analyst, UBS Securities LLC*

Q

Yeah. Just kind of taking the two conversations that have been ongoing here, just NEXUS; the need for incremental gas in the state given the coal retirements, is this a question of when rather than if? And how do you think about your own plans for more coal retirements in the context of expanded pipe needs in the state?

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yeah. It definitely is a matter of when. There will be gas needs within the state of Michigan, and that's why – the NEXUS pipe will provide that when it connects into the existing Michigan infrastructure. It will be sourcing Michigan as well as potentially sourcing the Chicago-Ontario market. So we do feel there is a need for this pipe going into Michigan and then existing infrastructure within Michigan. Once NEXUS is built, we're going to need to be doing some expansions on Vector as well as our gas utility system.

**Julien Dumoulin-Smith**

*Analyst, UBS Securities LLC*

Q

Excellent. And then going back to the coal retirement side or moving on to that side, rather, can you comment? You mentioned upper end of the \$1.3 billion to \$2 billion range. What are the primary drivers as you are thinking about that? I know we are a little early. And perhaps specifically here at the Belle River plant, how are you thinking about that in the context of carbon and your comments earlier that perhaps it had a little bit of a bigger impact on timing than you might have had initially?

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

What we are working through right now, we really are in the process of working through this detail is the EPA has a compliance by 2030, but it also has is averaging between 2020, 2030. So how do you do that? What's the timing of that? And that's really where the acceleration is going to come in as they hit those averages. And as you mentioned, we do have some longer-term coal plants that the coal plant, in particular, where we put \$2 billion of environmental spend on at our Monroe plant, that's going to be here probably long after I retire.

The other plants are something that we were looking at, what's going to be the timing. You mentioned the Belle River plant, one of our newer plants that will be around quite a while. But in this time frame, we are analyzing as well what we do with that plant as well in this timeframe.

**Julien Dumoulin-Smith**

*Analyst, UBS Securities LLC*

Q

Perhaps just to be more specific there. Does the upper end of that \$2 billion range include a full scrubber on Belle River? Is that one of the big CapEx items there?

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

We are – that's something right now, actually what we need to do with Belle River with these EPA standards. We have deployed this dry sorbent injection technology across a number of our generating units, including Belle River. So that's one thing we are analyzing right now; the engineering people are analyzing whether we need that scrubber or not, or just continue on with this dry sorbent injection technology.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Got you. And so I suppose that will be part of the update later this fall as it...?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

It will.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Great. I'll let it be. Thank you very much.

**Operator:** And our next question is from Mark Barnett with Morningstar.

Mark Barnett

*Analyst, Morningstar Research*

Q

Hey, good morning.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Hi, Mark.

Mark Barnett

*Analyst, Morningstar Research*

Q

So we have talked a lot about the pipelines and the utility today which has been great. Thanks for that. Just a couple of smaller questions. Just one housekeeping, how large was the impact year-to-date from the change in your benefit assumptions in the income statement? If that's not a number you have right away, we can...

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

We are getting that number right now. Yeah, one second, Mark. We're – sorry about that. We can come back with you on that.

Mark Barnett

*Analyst, Morningstar Research*

Q

Okay. No problem. The second question is more of a longer-term question here for the REF units. What's the average, I guess, tenure of those contracts, at least the ones that you have finalized now? And how potentially a little bit down the road, when maybe some investment decisions are made about the lifetime of those plants with some of the new regulations that we are seeing or going to see, how do the contracts treat that possibility?



Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

These plants are – they are 10-year tax credit projects. So the economics here is really driven by tax credits. We had roughly half of them go into service in 2009. They will actually end in 2020. The other was a 2011 ending in 2022. So right now, what we are planning on is the economics will play out during this timeframe. And I said that, as you indicated, there may be some continued use for these facilities from an environmental compliance, but it would be at a much reduced level.

Mark Barnett

*Analyst, Morningstar Research*

Q

Okay, thanks for that.

Jeffrey A. Jewell

*Vice President & Controller, DTE Energy Co.*

A

Hey, Mark, this is Jeff Jewell.

Mark Barnett

*Analyst, Morningstar Research*

Q

Yeah, hi.

Jeffrey A. Jewell

*Vice President & Controller, DTE Energy Co.*

A

Yeah, we're – from the plan design, we're about \$10 million after tax savings with respect to 2014. And then there's the asset returns and stuff like that, maybe other \$5 million. So we're talking like maybe \$15 million.

Mark Barnett

*Analyst, Morningstar Research*

Q

Okay. Thanks. Appreciate it.

**Operator:** And our next question is from Andy Levi with Avon Capital.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Hi. Good morning.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Hi, Andy.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Basically, all set. But just back on NEXUS, just to make sure I understand what you said about Enbridge. So I guess, I noticed in your brochure for the open season that you just did, obviously, Enbridge was not listed as it was in an earlier brochure. So should we just assume that Enbridge is basically out and that if this pipe goes ahead, you'll have a larger percent...

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Really too early at this point to say that. We are in discussions right now with Enbridge around their continued potential ownership of interest in the pipe as well as other interested parties. This is all will kind of come to a head within the next 30 days with this open season.

**Andy S. Levi**

*Analyst, Avon Capital Advisors LLC*

Q

Okay. But basically, the question is why were they not included in the brochure?

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

We are right now the lead – the DT inspector are the lead. So the lead developers are the ones who kind of drive the process and are mentioned in the open season documentation.

**Andy S. Levi**

*Analyst, Avon Capital Advisors LLC*

Q

Right. But they were in a previous one, so I'm just wondering why they are not in this one?

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes. The MoU did expire. And we are, at this point, the lead on the project. That's really what I can disclose at this point.

**Andy S. Levi**

*Analyst, Avon Capital Advisors LLC*

Q

Okay. And again, I guess, the CapEx that you are looking at in your – you have your bar chart where you give earnings for the natural gas segment – for the pipe segment through 2018, I believe it is. How much of that – does that contemplate a third, third, third in the earnings power that you give there? And then you have your, like, white section there.

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes, our disclosure, which I said at this point we probably – we will be sticking with until we understand this open season. It was 1 B pipe at a \$1.5 billion spend with a one-third ownership.

**Andy S. Levi**

*Analyst, Avon Capital Advisors LLC*

Q

Okay.

**Peter B. Oleksiak**

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

But it's in our schedules as well.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Got that. And then do you think really by the end of this binding open season in the next four weeks, again, it could be extended we'll kind of know at that point whether it's a go or no go in the timeframe that you've set out?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes. The next step would be to have a FERC filing. And at that point in time, we'll be proceeding into the next important step of this pipeline project.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

But – I guess, what I'm asking is that this binding open season that you are doing should really determine whether it's a go or no go?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

It will determine the ultimate size of the pipe.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Of the size of the pipe?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

So is it safe to say that it's almost certainly a go; it's just a matter of size now?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

It will be in terms of a FERC filing process. There's definitely a high probability that we'll be proceeding with the FERC filing. It's really determining now the size of the pipe.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Okay. So I don't know if you want to put a percent. But like you said, it's a very high probability that this...

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes and I did indicate that I remain very bullish. Our pipe here...

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Right, yes. I saw that on Bloomberg's?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes. And in terms of where we tie into the reduced level of new build needed, for us it makes a lot of sense.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Okay. That's great. Those were my questions.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

All right.

Andy S. Levi

*Analyst, Avon Capital Advisors LLC*

Q

Thank you very much.

**Operator:** And we have a follow-up question from Julien Dumoulin-Smith from UBS.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Yes. Thank you very much. I wanted to follow up here. You mentioned needing to or potentially tapping the bilateral market here for further capacity as you look out. I'd be curious; can you comment at all around some of the other data points we've heard around improvement in MISO capacity pricing to the extent to which you are willing to comment? Some of the data points out there have supported \$2 a kilowatt to \$3 a kilowatt month. Any thoughts? Is that kind of consistent, in the ballpark with what you are seeing?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Julien, I really haven't gotten into that level of detail, to be honest, with the team. When I did talk to the team, there are options that we have. So we don't need to proceed in terms of buying a generating plant here in the state of Michigan. If it doesn't make a lot of sense for our customers, we will not do that; we will proceed with other options. Don't really have the specifics in terms of what we are seeing in the pricing, what those options are going to be. But obviously, it would be something we would make – determine at the end of the RFP process whether we're going to go to that route or not.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Got you. What would be – just the order of magnitude, how much are you thinking about procuring potentially from the market versus any other resource for your own internal planning? Just if you could give us a sense there and I will leave it there.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yeah. We do have a natural short in the summer timeframe that's around 1,000 megawatts that will continue to be needed for us to procure in the summer timeframe.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Great. And that increases by how much, or to what levels?

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

I'm going to say it's roughly 1,000 megawatts. There is changes in terms of load and peak load demands, but it's approximately 1,000 megawatts. We are anticipating that to stay.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

All right, great. Well, thank you very much for the clarity.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

A

Yes.

**Operator:** And this concludes today's question-and-answer session. I would like to turn the conference back over for any additional remarks.

Peter B. Oleksiak

*Chief Financial Officer & Senior Vice President, DTE Energy Co.*

I'd like to thank everybody for joining us today. And then have a great weekend.

**Operator:** This concludes today's conference. Thank you for your participation.

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