

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

DTE - Q3 2017 DTE Energy Co Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2017 / 1:00PM GMT



OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

## CORPORATE PARTICIPANTS

### Barbara Tuckfield

**David J. Slater** *DTE Energy Company - President of DTE Gas Storage and Pipelines*

**Peter B. Oleksiak** *DTE Energy Company - CFO and SVP*

## CONFERENCE CALL PARTICIPANTS

### Andrew Levi

**Charles J. Fishman** *Morningstar Inc., Research Division - Equity Analyst*

**Gregory Harmon Gordon** *Evercore ISI, Research Division - Senior MD, Head of Power & Utilities Research and Fundamental Research Analyst*

**Jonathan P. Arnold** *Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst*

**Julien Patrick Dumoulin-Smith** *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

### Kevin Fallon

**Michael Weinstein** *Crédit Suisse AG, Research Division - United States Utilities Analyst*

**Paul Patterson** *Glenrock Associates LLC - Analyst*

**Paul Thomas Ridzon** *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

**Shahriar Pourreza** *Guggenheim Securities, LLC, Research Division - MD and Head of North American Power*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the DTE Energy Third Quarter Earnings Call. Today's conference is being recorded. For opening remarks, I'll turn the call over to Barbara Tuckfield. Barbara, please go ahead.

### Barbara Tuckfield

Thank you, Debbie, and good morning, everyone. Before we get started, I would like to remind everyone to read the safe harbor statement on Page 2 of the presentation, 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, Senior Vice President and CFO. We also have members of the management team to call on during the Q&A.

And now I'll turn it over to Peter.

### Peter B. Oleksiak - DTE Energy Company - CFO and SVP

Thanks, Barb, and good morning to everyone and thank you for joining us today.

First, no DTE earnings call would be complete without an update on my Detroit Tigers. And since I'm flying solo here today, I'm going to start with that. I'm disappointed to say that for the second straight year, the Tigers did not make the postseason and traded away most of their veteran



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

players, and I see Justin Verlander's pitching tonight in the World Series. So I wish him luck. The good news is that, for the Tigers, we did get the #1 pick for 2018 season. So every ending has a new beginning. And as always, I look forward to a brighter season next year.

Now on to the update on DTE. Like last year, we're keeping today's call focused on the quarter and our attention on the current year. The longer-term strategy and growth-related questions will be deferred the EEI Conference, which is only a couple of weeks away. And at EEI, Gerry Anderson will be providing our detailed business update. This update will include our 2018 early outlook, our long-term growth plans as well as details about each of our business segments.

Now I'd like the start on Slide 3. Given our continued strong year-to-date results, we're increasing the guidance midpoint by \$0.12 to a range of \$5.38 to \$5.69 from a range of \$5.26 to \$5.57. The guidance increase is driven by our Gas Storage and Pipeline and Power, Industrial segments, which I'll discuss in more details in a few minutes.

Before I get into financials, I want to shift to another area where we are seeing great results, which is residential customer satisfaction. I'm particularly pleased to announce that we ranked second in the residential customer satisfaction at the Midwest at both DTE Electric and DTE Gas.

Moving on to updates on our non-utility businesses. Since our last earnings call, our Gas Storage and Pipeline business received FERC approval for both NEXUS and the CPV Lateral projects, Valley Lateral projects, and we are targeting 2018 in service for both. We also had great news at our Power, Industrial Projects businesses. The agreement on the industrial energy services project we disclosed on the last earnings call was finalized, and I can tell you now that the project is part of Ford Motor Company campus upgrade. Powering Ford new -- Ford's new research and engineering center, DTE will own and operate the new state-of-the-art energy center using modern, efficient and green energy. And this facility is expected to begin operations in late 2019. We also have a great pipeline of projects in development to follow the ones we've announced this year, and we'll continue to update you as they progress. And at EEI, we'll give you a more detailed description of the types of investments we're targeting.

Now I'd like to go to the third quarter earnings result on Slide 4. For the quarter, DTE Energy operating earnings were \$264 million or \$1.48 per share. For reference, our reported earnings were \$1.51 per share, and you can find the reconciliation of the third quarter reported to operating earnings in the appendix. For the quarter, our growth segments' operating earnings were \$274 million or \$1.53 per share.

The Electric segment was lower by \$63 million quarter-by-quarter. This quarter was considerably cooler than 2016, which was one of the warmest on record and drove much of the unfavorability.

DTE Gas is lower by \$9 million quarter-over-quarter. This is primarily driven by the timing of the gas main renewable revenue and higher O&M expenses. As I mentioned on previous calls, with more of the gas main renewal revenue at base rates, revenue was expected to be proportionately lower in the second and third quarters and higher in the first and fourth quarters and will not affect the full year earnings.

For the Gas Storage & Pipeline segment, third quarter earnings were higher by \$8 million versus last year. This favorability was driven by the Link acquisition and higher pipeline and gathering earnings.

Our Power, Industrial Projects segment was higher by \$9 million quarter-over-quarter. This is due primarily to higher REF volumes and new sites coming online late 2016. And I'll talk more about this favorability when I discuss the guidance increases.

Our Corporate and Other segment earnings were \$14 million unfavorable versus last year. This variance was mainly due to the timing of taxes between the 2 years. Again, overall growth segment results for the quarter were \$274 million or \$1.53 per share.

Energy Trading lost \$10 million, operating earnings at \$3 million in economic net income for the quarter. But Trading is having a solid year and is on track to achieve its economic contribution target and please refer to the appendix to review the Energy Trading standard reconciliation slide, which shows both economic and operating income performance. Overall, we had a strong quarter.

Let's move on now to Slide 5 to discuss how this strength plays out in our full year guidance. As I mentioned at the start of the call, our EPS guidance range for DTE Energy is now \$5.38 to \$5.69, up from a range of \$5.26 to \$5.57. We're increasing the midpoint of the 2017 EPS guidance by \$0.12,



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

from \$5.42 per share to \$5.54 per share based on the continued strength at our non-utility segments. For our GSP segment, we are seeing favorable results with the Link acquisition of Pipeline and Gathering earnings. And at P&I, we were able to capture additional value through the REF business with 2 new high-production sites. Longer term, our 5% to 7% growth rate continues, growing off our original 2017 guidance, which weather normalizes our utilities and also normalizes the favorability of P&I from our REF facilities.

Before I get into nuances of the earnings guidance change for our P&I segment, I'd like to take a step back and discuss the overall value creation for the REF projects, just to set the context. As you recall, the REF projects are facilities that mix additives with coal to produce fuel that reduces emissions from the coal-fired power plants. The REF projects included tax credit incentives that can be generated over defined 10-year life. The initial projects came online at the end of 2009. And when Congress extended the refined coal tax credit program, a second tranche of projects were developed and brought online at the end of 2011. Since that time, we saw ways to increase the value of the projects by entering into strategic transactions with utility and investor partners. These transactions are completed to increase REF production, optimize cash flow and minimize operating risk. The timing of entering these transactions changes our earnings and cash profile. Tax credits generated are recognized immediately as earnings, which then can be utilized in the future to reduce federal income taxes. When transactions with investor partners are completed, they receive their earned portion of the projected tax credit allocation, which worth increases our near-term cash flow while decreasing earnings.

Now let's move back to 2017 guidance update for the P&I segment, where we see some of this impact playing out. We see in this guidance changes the increase tied to additional REF projects we developed last year with (inaudible) -- actually it was a relocation and acquisition -- that are generating earnings for us and our shareholders. We're now in the process of looking for investor partners. We have done this already with many of our existing units. And when these partnerships are executed, they will be value and cash accretive to the enterprise and will reduce earnings. Until we find partners, we realize higher earnings near term on these projects. Finding these investor partners maximizes the NPV of these assets. Of the exact timing of when we enter these partnerships is driven by a combination of 2 things, one is having the units run for a period of time to maximize performance and, also, is finding the optimal partner to maximize cash value. Over the remaining lives of the projects, we will continue to maximize value of the REF business line, 2 potential relocations to higher units -- of our units to higher volume sites or the acquisition of additional third-party units where we can create value. This business line has and will continue to deliver significant earnings and cash benefits to our bottom line.

Now let's move to Slide 6 and discuss cash and capital guidance. In addition to the solid earnings results, our cash flow and balance sheet remained strong and continue to support our long-term growth plan. Based on the year-to-date results, we're updating our cash flow and capital expenditure guidance with a change related to capital. Taking a closer look at the capital expenditures on the right side of the page, we show that the -- capital expenditures by business unit. We still expect to invest nearly \$2 billion at our utilities this year. This includes \$1.5 billion at DTE Electric, driven by investments in our distribution system, and \$400 million at DTE Gas, driven by investments in base infrastructure and main renewal. With the capital investment that has occurred over the past few years at DTE Gas, we are likely to file a rate case by the end of this year. We have decreased our non-utility capital guidance by \$500 million. This is for the retiming of the construction of the NEXUS project. And as I mentioned earlier, we're targeting a third quarter 2018 NEXUS in-service date. This brings our total capital expenditure to approximately \$2.5 billion for the year.

Now I'd like to wrap up on Slide 7, and then we can open the line for questions. We had another successful quarter, and we're in a great position to exceed our original EPS guidance this year, looking to extend our streak to 11 consecutive years of meeting or exceeding initial EPS guidance. We're investing heavily in our utilities by upgrading our aging infrastructure, improving our customer experience. We're executing on growth opportunities at our non-utility businesses, most notably with Link and NEXUS and GSP, and the recent industrial energy services project at P&I at the Ford complex. We continue to maintain a strong balance sheet, which sets us up nicely for future growth opportunities. And during this period of significant investment, as we begin to transform our electric generation fleet and the strength of our utilities, combined with our growth for non-utilities, gives me a lot of confidence that we'll continue to develop -- to deliver premium shareholder return.

In closing, I'd like to remind everyone that Gerry Anderson will be giving a presentation at the upcoming EEI Conference on November 7. So this update and his update will include an early outlook for 2018 and an update on our long-term growth plan. It'll be webcast on our Investor Relations website, and we hope to see many of you there.

Now I'd like to open it up for questions. And as I mentioned at the beginning of the call, we very like to focus the questions on the current quarter and year. Also, I have members of the management with me I may call upon to answer your questions. So Debbie, you can open up the line for questions.



OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We'll go first today to Michael Weinstein with Credit Suisse.

### Michael Weinstein - *Crédit Suisse AG, Research Division - United States Utilities Analyst*

Maybe you could talk a little bit more about how far you are on the -- on track for P&I replacement of 1/3 of the expected \$40 million for new projects that you have targeted for 2021?

### Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

Yes, we -- no, we have announced 3 projects this year. And on this quarter, we announced the details that we've been talking about, this industrial energy services project with the Ford complex. So this is a real visible sign that we are, right now, 1/3 of the way there in terms of the backfill. We are targeting at this point \$40 million for backfill for 2020, which is a good portion -- a portion of the REF earnings, the REF, our short-duration contracts. So we have, as our Power Industrial segment, to backfill a portion of that with long-term contracted earnings. But we have -- also have a great pipeline of additional opportunities that we're looking at. And at EEI, we're actually going to go into a little more detail on the nature of these types of opportunities.

### Michael Weinstein - *Crédit Suisse AG, Research Division - United States Utilities Analyst*

Got you. And for NEXUS, are we -- at this point, when do you expect to start construction? And is there any remaining FERC rate issues that need to be dealt with?

### Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

I have Dave Slater here, the president of our -- that business unit. I'll have him answer the question.

### David J. Slater - *DTE Energy Company - President of DTE Gas Storage and Pipelines*

Yes. Michael, we actually commenced construction on the 16th of October. So we're underway, and it's primarily right-away work that we're commencing. And we have a plan to do a number of HDDs, working on the compression stations, and that will play out over the course of the winter with mainline pipeline construction commencing in the spring.

### Operator

We'll go next to Greg Gordon with Evercore ISI.

### Gregory Harmon Gordon - *Evercore ISI, Research Division - Senior MD, Head of Power & Utilities Research and Fundamental Research Analyst*

Well, I'll table the questions on Power and Industrial's future outlook for EEI, since you requested that. So when we look at the quarter, the underlying growth trends that you're seeing in terms of economic outlook at DTE Electric, I know that the weather has been pretty big swing in earnings over the last few quarters, but we're seeing really strong economic activity across-the-board here. My chief economist this morning just pointed out



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

how strong the data looks both in the U.S. and globally. Are you seeing from the auto industry or any of the other big industrial segments in your service territory signs of accelerating growth? And how would that impact your outlook?

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

Yes. We are seeing in -- for us, the best indication of the underlying economic growth is that we take a look at customer accounts within the region. So we are seeing a steady increase. We have seen a steady increase by last 5 or 6 years of about 0.5%, and I'd say, overall, the Michigan economy has been diversifying over the years. I think it's a very solid, and we continue to see solid performance. And for the automotives, the automotives right now, they're at a pretty, pretty high level of 18 million units. Now they're targeting about 16 million units, which, still, is a good level for them to make some profitability. As overall, I'd say, I'd put it more -- characterize it as solid economic performance here in Michigan.

**Gregory Harmon Gordon** - *Evercore ISI, Research Division - Senior MD, Head of Power & Utilities Research and Fundamental Research Analyst*

Okay. So you're not seeing any change to the upside? Are we still...

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

At this point, we're -- we are still projecting probably relatively flat loads, probably underlying growth around 1%. But we continue to see energy efficiency happening, and we have a really robust energy efficiency program that's paying dividends for us. But it's relatively flat, as we were finding before, on a financial basis.

**Operator**

We'll go next to Julien Dumoulin-Smith with Bank of America Merrill Lynch.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

So a quick question on the P&I side real quickly. Does the additional projects, does this shift at all the roll-off and the timing of those credits at all by any meaningful amount? Or is that still sort of the expectation that you laid out before?

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

The expectation is these -- there'll be a roll-off in 2020 and then 2022. Now these projects, this has been a great business line for us, as you know, a lot of earnings, a lot of gas. So there -- these additional projects will, actually, more than anything, give us additional cash. We have a significant investment program ahead of us. But we are targeting -- right now, and you'll hear at EEL, we're really targeting kind of end-state non-REF, post-REF bridge of the business lines. We'll give an update at EEL.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

Got it, excellent. And then can you talk a little bit about the change in the non-utility CapEx? Obviously, there's some moves in NEXUS, et cetera. But anything else there? Just to make sure we're not missing anything.



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

No. It's really NEXUS, primarily NEXUS-related.

**Julien Patrick Dumoulin-Smith** - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research

Got it. And then turning back to the utility real quickly. Some of your peers are talking about green tariffs and offering those as another growth avenue at the electric utility side in Michigan. Any opportunity there on your side you guys are looking at?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Do have a green tariff, and obviously, we'll continue to work. That's definitely an area of focus for us, and our commission and our customers, as we do have a program similar to that.

**Operator**

We'll go next to Shar Pourreza with Guggenheim Partners.

**Shahriar Pourreza** - Guggenheim Securities, LLC, Research Division - MD and Head of North American Power

Let me just -- I know you're going to discuss this a little bit more at EEI, but it sounds like, from your prepared comments, you've done a very good job of filling sort of any kind of gaps as the earnings step down from REF. And it doesn't appear or that there's a concern that the fact that you're adding additional incremental sites, that you're just essentially -- the earnings cliff is sort of growing. So is there a concern there? Or do you sort of -- or you're going to talk about at EEI how you're going to account for that. Is it the tenor of the contract?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes, that is a good question. The REF units does -- do provide over and above what we originally had, but it's really cash, at the end of the day, for us that really is going to help us in the near term. But we are targeting right now a post-REF, basically, plan that gets us to the 5% to 7% growth profile. I wouldn't think about this as additional earnings, but actually, it's good news, good additional cash. We're going to continue to optimize this business unit actually by -- over the next year or so to continue to deliver value and cash.

**Shahriar Pourreza** - Guggenheim Securities, LLC, Research Division - MD and Head of North American Power

Okay, great. That's helpful, and I guess we'll get more color at EEI. And then just on NEXUS, do you plan on providing any sort of updates as far as the -- any updates to firm commitments or interconnection agreements at EEI?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes. At EEI, we definitely will provide a more thorough update around NEXUS, how we're seeing about that. We'll also probably give you a sense around where we are in terms of looking at the potential opportunities out there in terms of contracts, new contracts.

**Operator**

We'll go next to Paul Ridzon with KeyBanc.



OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Paul Thomas Ridzon** - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

You mentioned filing a rate case by -- was it the end of this year?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

The end of this year for our gas utility, that is correct.

**Paul Thomas Ridzon** - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

Yes. Just to clarify, I think it was Julien's question. These new sites at REF don't change the timing of the wind-down but just are more cash producing?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes, that is the way to think about it.

**Paul Thomas Ridzon** - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

And then just -- NEXUS has slipped from late '17 to 3Q '18. Can you kind of -- what -- is it still negligible impact on earnings power in '18?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

The way to think about it is that we do get the AFUDC accounting. We have talked about that. So it is pretty minor for '18 impact.

**Operator**

We'll go next to Jonathan Arnold with Deutsche Bank.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

Can I just ask, on the guidance increase for this year on the P&I segment, is there -- is that all REF? Or is there anything else going on behind the scenes?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

It is, it is all REF. We've had 2 guidance changes. The first one was related to REF as well, which was really more volume and capacity, really good plant performance at existing sites, and this is related to new incremental units that we have.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

So the rest of P&I is just unchanged? Or has that actually -- could that've shrunk and REF is growing more? Or what's the dynamic between the 2?



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

The way to think about this from a normalized basis is go back to the original guidance with that segment; that's probably the best way at this point.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

And then all of the doubts are -- is REF?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

Pretty much, okay. And then just one question. Is there any -- has there been any talk of these tax credits potentially getting extended, given the administration's focus on coal and doing things that might not have been done in the past?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

We do not anticipate that at this point in time.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

Okay. And then just more general. I know you're going to talk more about the strategy further out. But I just want to be clear that what you're announcing today, this forward deal is the large CHP deal that you've been talking about, really, since the beginning of the year, and then the...

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

That is -- yes, that is correct, Jonathan. It's really kind of giving you the details of this exciting new project that we're building.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

Right. And the other 2 are the landfill gas transactions that you announced, I think, 2 quarters ago now.

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

That is correct. And we'll give more updates around the nature of these new opportunities and these -- how we're looking for it at the segment growing...

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

I just had a sense that you -- earlier in the year, you would've been anticipating having more of this to talk -- to announce by now. So I'm just curious what the -- how -- if you can comment on the sort of momentum in the -- currently, in filling in this gap as opposed to maybe the sort of plan?



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

We are -- actually, internally, we do track this. We are on target right now with the backfill. I think we have few years for the backfill to occur. This segment overall has 70 projects. So we knew it's going to be a handful of projects replacing the portion of REF that we've asked this P&I segment to replace. So at a pro rata basis, actually, they are -- we're feeling really good right now with the projects that we executed as well as those are in the pipeline.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

So is 70 the universe of things you're looking at?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

The 70, that number is actually the current number of projects that we have. So I gave that just to give you a perspective that we have a lot of projects. So the replacing of REF will not happen with maybe 1 or 2. It'll be a handful, probably half a dozen of projects will replace the amount of REF that we've asked this business unit to replace.

**Jonathan P. Arnold** - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

Okay. And is this sort of -- I think the last time you talked on this, the idea was it would be pretty more skewed towards these smaller landfill gas deals than additional forward-type deals. Is that still the thinking?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

All these opportunities that we kind of vet them out, those are the 2 areas, right now, that we're looking at. It's hard to say which ones are coming from one segment or the other at the end of the day, but both of them. And we'll -- this is one area, in particular, that we'll talk about in a little more detail at EEI to give you a sense of the nature of these types of opportunities.

**Operator**

We'll go next to Charles Fishman with Morningstar.

**Charles J. Fishman** - Morningstar Inc., Research Division - Equity Analyst

Peter, the Ford project, you have an ongoing relationship with Ford. Is this just a one-off? Or is this -- should we anticipate that maybe Gerry talks about what's downstream with Ford, additional CHP projects?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes. This is really -- they are going through, like a lot of the automotives but Ford, in particular, is going through, kind of how they set themselves up for the future. So they are redesigning and then upgrading their campus. This research engineering center was one, in particular, and they wanted to have renewable and green power there, and they partnered with us. So it is a special kind of one type of project, but we do have a great relationship with Ford, as you mentioned. So we're...



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Charles J. Fishman** - Morningstar Inc., Research Division - Equity Analyst

You have assembly plants that you provide a similar service to or not. I don't recall.

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes, on-site energy. We provide the on-site power, chilled water, utility type of services at the assembly plants, yes. And -- but this one would be a newly constructed as far as -- on their campus, really housed within their engineering center.

**Operator**

We'll go next to Paul Patterson with Glenrock Associates.

**Paul Patterson** - Glenrock Associates LLC - Analyst

So I'm sorry to circle over this REF thing, but I'm not completely clear. I understand you guys are doing better in that business, et cetera, but you also mentioned the impact of like -- what sound like was partners. I'm just wondering if you could describe a little bit more in detail. I was just was missing in terms of what the -- what that impact was or what -- if you could just clarify that again.

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes -- no, I definitely will clarify that. These projects generate tax credit. That's really what -- the value of these tax credits. So those tax credits are immediate for us, and we can utilize that in the future for -- presumably for tax cash benefit. When we look at our cash position right now in terms of our taxes, it makes sense for us for some of these projects to enter into partnerships where we essentially sell a pro rata piece of that partnership and the credits. So it's really the -- for us, it's the timing of this. Now we're in a process now of looking for some partners for these units. In the meantime, we're enjoying some really good earnings on these projects, but we will be entering some partnerships. So you -- it's a really an earnings-for-cash trade. So you'll see that in this segment, probably over the next year or 2. If there's additional relocations, we may do it, and you may see a temporary kind of bump in earnings related to tax credits. But as we maximize cash and value, kind of down a bit on those and then up.

**Paul Patterson** - Glenrock Associates LLC - Analyst

Okay. So this is a temporary benefit because of the increased REF tax credits, but that will be decreasing, I guess, in the next few years as you're monetizing it with these partners. Is that the way to think about it?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Right. As we essentially term it out to cash now. And we have a significant investment portfolio ahead of us, so this is definitely -- the cash is needed now to help fund that.

**Paul Patterson** - Glenrock Associates LLC - Analyst

And what is the -- how much should we think about that REF earnings projection going -- as we go forward in this, how should we think about the earnings associated with REF? Could you quantify that a little bit? Or...



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

Yes. We -- the way to think about this segment overall is you look back at the original guidance in the segment, which was -- represent \$95 million. So once we get through a lot of those -- the partnership monetization and getting the cash out, we'll kind of get back to a tempered, normalized REF. Now these units are going to be throwing off additional cash and some earnings for us over the next few years, but you can think about it by looking back at the original guidance. That's the best way to do it.

**Paul Patterson** - *Glenrock Associates LLC - Analyst*

Okay. And then just in terms of the Ford deal, how much of that, that you're going to be -- how much CapEx is associated with that?

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

We haven't disclosed that amount at this point in time. But once again, it is a great investment for us and part of that overall backfill strategy of our REF units.

**Operator**

We'll go next to Andy Levi at Avon Capital Advisers.

**Andrew Levi**

Actually, all my questions were asked. Just one follow-up, just on the Ford announcement. So that's a one-off, there's no extension opportunities there on that one particular project?

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

No. I'd say it's significant kind of on-site project for us with our new engineering. We have additional opportunities with similar type of potential projects with other type of customers. Yes, but this one really is a -- it's kind of a standalone type of project. And once again, we're very excited to be working with Ford on this one.

**Andrew Levi**

Okay, great. And then at EEI, will we get numbers around that project, just to kind of figure out what the opportunity is longer term on other similar projects? Or that'll just be part of the overall guidance that you gave?

**Peter B. Oleksiak** - *DTE Energy Company - CFO and SVP*

We will give a description of this area a little bit more and the nature of potential opportunities, additional opportunities in this area. We'll provide that at EEI.

**Operator**

And we'll go next to Kevin Fallon with Citadel.



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Kevin Fallon**

Just a question on the monetizing the REF credits going forward. Do you have like a deferred balance right now that you would monetize? Or is it just basically selling the earnings stream to somebody else going forward?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

It's really selling the earnings stream, yes. We do -- we're not doing a deferred balance on our balance sheet. That's the reason why as we -- periodically, we take a look at this and see how -- what's the cash value to us in the future and tax benefits versus monetizing and getting into a partnership.

**Kevin Fallon**

Okay. And how many REF projects do you currently have?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

We have --- currently right now, we have 11 projects.

**Kevin Fallon**

Okay. And in the original guidance, just go back to early look from EEI last year, I think the P&I segment was \$90 million to \$100 million, which I think is the base you were pointing back to. What's the REF percentage or REF amount in there?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

We really don't give that type of disclosure. But I can tell you that this segment overall is supported by 70 projects. Now this segment, for the last 20 years, it is a series of a lot of different projects. They basically come and go. Currently, at the moment, a good majority of the earnings right now is related to the REF projects, and that's one of reasons why we have a backfill strategy. So we've asked -- we've get this real short-term duration earnings, a portion of that we're going to add -- we've added some P&I segment to the backfill. But my straight answer is the majority of the earnings at this point in time is -- really, it's REF. But we're very excited in terms of the new projects and really terming out those short-term earnings in terms of long-term contracted earnings.

**Kevin Fallon**

Okay. So there were 7 projects in the original guidance from EEI last year, that's what you said, and you're up to 11 now?

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Overall, we have 11 currently.

**Kevin Fallon**

But in the original guidance?



## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Well -- yes, the original guidance, we did have the 11, and this -- these are really related to -- we had 2 incremental, essentially, projects come online, and one of them was a relocation, and we potentially continue -- may continue to do that over the near term. The other one was an acquisition. So they both -- what this is related to is the timing of getting into these partnerships. So we're recognizing now and benefiting from the tax credit earnings. And when we basically get into partnerships, we'll be benefiting from the near-term cash flow stream.

---

**Kevin Fallon**

I got you. And just last thing, the 5% to 7% earnings growth is off the original guidance and that's what we should be using as a base to project through the out-years?

---

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes. I'd say for now, that would be the best approach.

---

**Kevin Fallon**

And what is the original guidance?

---

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

It was a midpoint of 5.31%.

---

**Kevin Fallon**

A midpoint of 5.31%, that's what we should grow 5% to 7% off.

---

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Yes. And we just -- I know we have -- I don't think we have in our current presentation, but yes. If you could go back to the original guidance, that's the best approach. It really normalizes for weather at both of our utilities as well as for the REF. But we'll be giving you an update here at EEI in terms of our growth rate projections and how to think about that going forward. For now -- but for now, the best way to think about this is off of our original guidance.

---

**Operator**

Ladies and gentlemen, that concludes our question-and-answer session for today, Peter, I'll turn it back to you for closing remarks.

---

**Peter B. Oleksiak** - DTE Energy Company - CFO and SVP

Thank you, everybody, for joining us this morning, and I definitely look forward to seeing a number of you here at EEI over the next couple of weeks. And once again, I think we have a really good message to tell, and we'll give you the updates as I mentioned earlier.

Until then, definitely have a good rest of the day.

## OCTOBER 25, 2017 / 1:00PM, DTE - Q3 2017 DTE Energy Co Earnings Call

### Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect.

#### 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.

©2017, Thomson Reuters. All Rights Reserved.