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PRESENTATION

Operator

Good day, and welcome to the DTE Energy 2018 Q2 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Barb Tuckfield. Please go ahead.

Barbara Tuckfield ***DTE Energy Company - Director of IR***

Thank you, April, and good morning, everyone. Before I 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 earnings to operating earnings provided in the appendix of today's presentation.

With us this morning are Gerry Anderson, Chairman and CEO; Jerry Norcia, President and COO; and Peter Oleksiak, Senior Vice President and CFO. We also have members of management to call upon during the Q&A session.

And now, I'll turn it over to Gerry to start the call.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Well, thank you, Barb, and good morning, everyone. Thanks for joining us today. So this morning, I'm going to give you a recap of our performance for the second quarter and also share some thoughts on our long-term growth plan, and I'll hand it over to Peter, who will provide a financial review and some additional color around our increased earnings guidance. And then Jerry Norcia will wrap things up by providing more detail on the progress of both our utility and nonutility growth plans, and then we will take your Q&A.

So I'm going to start on Slide 5. I told you on the first quarter call that I feel good about our financial performance and halfway through the year, I feel even better. To be honest, financially, we are crushing it this year. So both utilities are right on track and both GSP and P&I are having an exceptional year. And so given this, we are increasing our 2018 EPS guidance midpoint by $0.35 or a full 6% to $6.13, and this new guidance implies growth of nearly 10% versus our actual in 2017.

Cash flows are also very strong. So we're increasing our cash flow guidance for the year by $200 million. And as Peter will discuss later, we expect this cash flow strength to reduce our equity issuances over the 3-year period.

On the regulatory front, I am encouraged as well. So on the first quarter call, we told you that our recent electric rate case was a bit low. Since then, on rehearing, the MPSC increased the case outcome by just a little more than $10 million and that outcome also had important benefits for one of our local communities. So their decision was appreciated.

The MPSC also recently approved our plan to move forward with an 1,100-megawatt combined cycle plant to help backfill some of the coal plant retirements that we have coming. We also recently filed a $1.7 billion renewable energy plan with the Public Service Commission, an investment that will both help backfill the retiring coal plants and meet the 2021 RPS requirements that we have here in Michigan.

In July, we filed an electric rate case. And importantly, that case includes an IRM provision for an infrastructure recovery mechanism, that we discussed extensively with the MPS in a series of meetings before the filing, and Jerry Norcia is going to give you more detail on that provision in a bit.

Finally, our gas rate case will be finalized in September, and we expect the outcome in that case to be without surprises.

Moving on to Slide 6, I want to transition to a discussion of our future growth. Both of our utilities are evaluating investments that would be additional to those in our current plan. So in the electric utility, those investments are tied to voluntary renewable projects with large customers, and those discussions are progressing well with the customers.

In the gas business, we filed a plan to further accelerate our gas main replacement program and (inaudible) give additional color on both of these areas in a few minutes.

There is a lot going on at GSP related to future growth. So NEXUS construction is now 80% complete and progressing well. In fact, a group of us, along with some board members flew the pipeline route yesterday and saw mostly dirt-covering pipes, so that's a good sign.

On our link asset, the DTE board recently approved a $250 million gathering expansion investment for a key customer. And overall, the link asset just continues to surprise to the upside.

We also have 4 other laterals or expansion projects that are either under construction or have recently been completed, and Jerry will give you some further color on those in little bit.

Finally, we are evaluating acquisitions that are of a scale analogous to link. And as we look at those, we will keep you of our abreast -- keep you abreast of the work in that area.

So P&I also has a lot on its plate relative to future growth. So the fourth central energy plant that we recently closed is now in full board construction, and we've also begun construction on an RNG or renewable natural gas project in Wisconsin, and we sense that there are more projects like these 2, that I just mentioned, that will be coming. So we expect to close an additional 1 to 2 cogen or RNG projects this year. And the development queue behind those projects continues to be very strong. And so given all of that, we now expect P&I's 2022 earnings to be materially above the $70 million that we've previously disclosed.

We also remain committed to our 5% to 7% EPS growth rate target over the 5-year plan. So there's been some discussion about whether we can hit those targets out in 2022, so I want to spend a minute on that topic. And I'll address the topic from 2 vantage points, looking forward and looking back. So let me start with the forward look. So there are a range of long-term EPS forecast out there for us, and in our eyes, few of them are light. And for those who are light, we see a few key themes. These forecasts tend to be light on future utility earnings, heavy on future holding company expenses and heavy on future equity issuances versus our plan, and a combination of these factors account for the perceived shortfall.

I also see that our portfolio of growth opportunities feels better than it did even 6 or 9 months ago. We continue to look for and find good investment opportunities, which has been a pattern for the company over the years.

So that brings me to the second vantage point I mentioned earlier. And I'm moving on to Slide 7 now. The 5-year forward growth targets that we have provided you over the years versus what we've actually achieved are shown on this slide. So for example, if you look at the second set of bars from the left, 7 years ago, in 2011, our targeted EPS growth rate implied an EPS level in 2016 of $4.64. We actually delivered, 5 years later, in 2016, $5.28. Similarly, in 2012, our 5-year forward growth estimate for 2017 was $4.97. We ended up beating that last year by $0.62 or 12.5%. And based on the guidance update that we've given you this morning on this call, the 2018 EPS growth target that we provided to you back in 2013 looks pretty conservative now given that the we expect to come in $0.90 higher or over 17% above what we told you we were targeting for this year 5 years back.

Now what's the point of this backward look? Well, I have to tell you, every one of those 5-year projections that we gave you over the years felt challenging at that time, I can vouch for that. And every one of those 5-year plans had some level of go get in them, that is growth that we expected to play out and we're committed to finding, but hadn't yet fully pinned down. And our pattern shows that we've been able to more than fill those future growth goals.

So as I look forward 5 years to 2022, things feel much the same. There are challenges in the plan, it wouldn't be a decent 5-year plan if there weren't some challenges in it, but the challenges feel very analogous to those that we have not only met in the past, but have materially beaten over the past decade.

So I hope that's some helpful perspective on our future growth and, of course, we'll provide you a more detailed update on all of that later this year.

And with that, I'm going to turn things over to Peter for the financial update. Peter, over to you.

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Thanks, Gerry, and good morning, everyone. I'm going to start on Slide 9. Before I get into quarter, I would like to give an update on my Detroit Tigers. While the Yankees, Red Sox and Astros battle for the best record in the American league and through last night's loss to Kansas City, my Tigers are now 17 games below 500 and deep into the rebuilding process. On the positive side, our minor league prospects are looking good, including the #1 draft pick. So there's a bright future ahead for my team, but it really can't come soon enough for me.

Now turning to our financial results, as some of them are positive, DTE is off to a great start this year. As Gerry mentioned, the first half year came in very strong. We had operating earnings of $247 million or $1.36 per share. And for reference, our reported earnings were $234 million or $1.29 per share and you can find a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings in the appendix.

As such, on each of the segments in detail, starting with our utilities. We had very interesting weather during the quarter that provided some variability of both utilities. Our gas utility experienced a very cold April, actually the second coldest April on record. And our electric utility experienced warm weather in both May and June. In fact, May was the second warmest on record here in 2018. This weather was positive for both utilities. So a perfect utility quarter for us.

To review the quarter-over-quarter earnings variance, I will start with electric utility. The DTE Electric earnings for the second quarter were $163 million, $15 million higher than the second quarter of last year, driven by a new rate implementation and the warmer weather I just mentioned, partially offset by higher O&M expense and rate base growth. A more detailed year-over-year earnings variance walk for DTE Electric could be found in the appendix.

DTE Gas operating earnings were $14 million or $13 million higher than last year driven primarily by the cooler April weather. The Gas, Storage & Pipeline business operating earnings were $60 million in the second quarter, $20 million higher than last year. This increase was due to a lower corporate tax rate as well as increased gathering and transport volumes across the platforms mainly after the storm. Future growth that we anticipate at GSP is showing up earlier than we thought, and we're essentially seeing growth that we expected to play out next year roll into this year, which really solidifies earnings across this year and 2019. And the strong cash flows that go along with the earnings are going to help reduce equity needs for us.

Operating earnings for Power and Industrial business was $43 million, just $13 million higher than the second quarter last year. This increase is due in part to higher REF volumes and a waste (inaudible) renewable plant performing better than last year.

We've been saying that we had continued to optimize our REF assets until they begin to sunset in 2020 and 2022 and that we expect to see some earnings upside from these assets in the near term, while these earnings upsides, we're seeing a result of first higher throughput at some of our existing REF sites. We also moved some of our units to larger sites where they can handle higher volumes. Now these incremental earnings that cannot be monetized were accelerated cash flow. You'll see these earnings for cash trade play out next year as we get tax equity partners for some of these projects.

Due to the strong growth in our nonutility this year, we have increased guidance at GSP and P&I, which I will discuss on the next slide in a minute.

Rounding out our growth segments in the second quarter is Corporate and Other, which is up $9 million unfavorable compared to last year due to tax reform and higher interest expense. Energy Trading had operating earnings of $8 million in the second quarter, up $4 million from last year driven by stronger performance of Gas portfolio.

So overall, DTE, the $1.37 per share at second quarter of 2018 or $0.29 more than last year.

Let me turn to the next slide and let me start with the -- at the top of the slide, the DTE Electric. It is where our guidance increased. You may remember, in the first quarter, we guided towards the lower end of the range, and with the favorable weather we experienced this quarter, we now expect to land firmly in the middle of the range for this year. The DTE Gas, we feel comfortable with the current guidance range for 2018. As I mentioned, both GSP and P&I, we're having a very strong year, we are increasing the guidance range at GSP to $225 million to $235 million due to the growth in gathering and transport volumes. At P&I, we're increasing the guidance range to $155 million to $170 million due to the higher earnings from the REF assets and strong results from our steel projects.

Our nonutility businesses differentiate DTE from our peers and continue to provide some very good long-term growth opportunities for the company. We're decreasing guidance for Corporate and Other due to taxes and other items that should be considered onetime in nature. As I mentioned, DTE Energy had earnings of $8 million in the second quarter and is on track to have another solid year due to trading had earnings of $9 million and so we're comfortable with the $5 million to $20 million guidance range we have in for the trading business.

Overall, we feel very good about achieving our new operating EPS guidance this year. And with this strength, we provided stronger cash flows and will allow us to reduce equity issuances, which I addressed already -- or in a minute.

The earnings streak we're seeing this year is continuation of a decade-plus pattern. Let's turn to Slide 11, you can see this. You can see, as we met and -- or in most cases, exceeded our annual earnings guidance that we provided for you the last 11 years, which is over a decade.

Over the front half of the period, we've guided you to 5% to 6% annual EPS growth. In most recent years, we have guided to a 5% to 7% growth. But as you can see from the green ovals on the top of the slide, our EPS growth over the last decade has been closer to 8% and the growth over the last 5 years approaches 8.5%. So by material, we've beaten our 5% to 7% EPS growth record for over a decade, which is a great track record.

Before I turn it over to Jerry Norcia, I'd like to give you a brief update on the cash flow in the next slide, Slide 12. This year's strong earnings and cash performance not only demonstrates for the 11th year in a row our ability to deliver results, but ultimately helps our EPS growth in the future. We're upping our cash forecast this year by $200 million and reducing our expected equity issuance by $100 million across 2018 to 2020. This year's total issuances are reduced from a previously disclosed $300 million to $250 million. Our goal is to minimize equity issuances next year outside of the link converts, and we're targeting $100 million to $200 million.

Now I'd like to turn it over to Jerry Norcia to discuss our long-term growth.

Gerardo Norcia ***DTE Energy Company - President & COO***

Thank you, Peter. I'll begin on Slide 14. We continue to see growth in our utilities fueled by our investment and infrastructure and generation. We have a lot of positive things going on in our electric utility that will help secure generation reliability and improve customer satisfaction. As Gerry mentioned, the Public Service Commission approved the need for a new natural gas plant earlier this year. This is an 1,100-megawatt natural gas plant cycle that we are building on a cost of just under $1 billion. Along with renewable energy, natural gas will be a critical part of our power generation capacity and that keeps ahead, the new plant is scheduled to break ground on August of this year and full construction underway in mid-2019. We expect the plant to go on service in 2022, which fits with the timing of 3 coal fire power plants being retired in the 2020 to 2023 time frame.

Earlier this year, we cemented our renewable plant to the Public Service Commission. We are planning to double our renewable capacity to 2,000 megawatts by 2022, investing approximately $1.7 billion for renewable energy over this time frame. We're also adding 300 megawatts of new wind capacity to supply a long-term renewable energy program for large investment customers who are looking to reduce carbon emissions.

In July, DTE Electric filed a general rate case, which included a 3-year infrastructure recovery mechanism, which we call the IRM, designed to reduce rate case frequency. This proposed IRM would recover distribution investments, our new natural gas power plant and certain fossil generation and nuclear investments. These investments total approximately $1 billion per year and are critical to modernizing our distribution system and improving our reliability for our customers.

This current rate case is the fourth in the last 5 years for DTE Electric. The company's need for rate increases has been and is expected to be largely driven by the need to replace critical infrastructure required to safely and reliably serve our customers.

With proper IRM in the electric company and place to address this critical infrastructure, we believe that we may be able to differ filing rate cases on an annual basis. IRM creates alignment, certainty and continuity for our investment strategies as it relates to modernizing or renewing our infrastructure. It also creates tremendous efficiencies in our ability to engineer, procure and construct the infrastructure when we know years in advance what our work will be.

All of this accrues as a benefit to our customers and reduces the frequency of highly repetitive regulatory proceedings. As you know, we have a recovery mechanism for our main renewal capital at our gas utility, and this has worked very well, helping our efforts to improve safety and reliability of our gas main infrastructure.

Recent refiling also included a request for an electric vehicle program, which we call Charging Forward. This program will help customers realize the benefits of EVs and reduce barriers to EV adoption through communication, residential charging support and charging infrastructure. Filing also incorporates the customer benefit of tax reform. We have a legislative 10-month rate case cycle in Michigan, so we expect the rates in the electric business to be effective in May of 2019.

Now moving to DTE Gas. We began reducing customer rates for tax reform in July. Our general rate case is progressing. The rate case included a proposal to increase the annual number of miles at main replacement, increasing the pace from a 25-year pace to a 15-year cycle. This proposal will allow the system to be hardened at a quicker pace and will significantly decrease O&M cost over time. As always, when considering the investment in system hardening, we are very focused on rate affordability for our customers. We'll file the plan with the public service commission, return the balance of the benefits from the tax rate decrease to customers. This rate reduction will go a long way toward mitigating effects of the gas rate case and will allow us to achieve our new affordability goal -- achieve our affordability goals.

Now let's move to Slide 15 to provide an update on our Gas Storage and Pipeline business. I'd like to start with update on NEXUS Pipeline. Before I highlight some of the progress we have made on construction, I want to take a step back and talk about the project as we see it. It is a long-term project that will help grow this business segment for many years to come. We're very encouraged by forecasts of future production in the base and served by NEXUS. The pipe is located over the most prolific -- one of the most prolific dry gas basins in the country. Basin's production capacity is expected to grow significantly from 28 Bcf a day to 40 Bcf a day by the end of the next decade.

Forecasters are also predicting that the basin will be short takeaway capacity in the very near future and our on -- and our ongoing discussion with producers obviously and industrials reflect this sentiment. We have enough volume on the discussion to fill the pipe. So this pipe is clearly (inaudible) and well positioned. Given this, we are focused on getting long-term deals to provide a strong base for NEXUS for years to come. We expect these deals to play out after the construction is complete and the pipe goes into service. This is something that is contemplated on our financial plan.

Speaking of construction, we have made some significant progress on all aspects of construction, and we are approximately 80% complete. 100% on mainline welding and the pipe is completed. Completing this welding is a key milestone on finishing any pipeline project, and we are in very good shape on this phase.

Regarding our horizontal directional drilling, we have completed 16 of the 18 HDDs we need to drill, which is another key phase in construction, and the 2 remaining HDDs are pretty minor in terms of size. So all in all, we are very pleased with how the NEXUS project is coming together. We look forward to growing this platform much like we have done with our other existing pipeline assets. And we, expect the pipe to be a strong contributor within GSP for many years to come.

Our link lateral and gathering asset continues to perform well and make progress towards future growth. Gerry mentioned the $250 million expansion on link that our Board of Directors recently approved. This is the third expansion on link. This investment is really coming along well. Volumes and investments are coming in faster than the pro forma plan we have shared with you.

Additionally, we are currently evaluating a number of acquisition opportunities, roughly the size of link. We have multiple assets under consideration, and we are in detail evaluation phase of 1 asset, in particular. As I've said before, when taking to investors for potential -- talking to investors for potential acquisitions, we are very disciplined in our approach, we focus on assets that fit strategically in our GSP portfolio and keep our business mix where we like it. We'll continue to update you on our progress in this area. As far as some of our other GSP projects, they are progressing well. Millennium's Valley Lateral was recently placed in service after receiving approval from the FERC. This is an 8-mile lateral that moves natural gas to a 720-megawatt power plant in New York. This is a good-size lateral that can deliver about 130 million cubic feet of natural gas. Also on Millennium, we have the eastern system upgrade on track for in service in the fourth quarter this year. This expansion will provide 220 million a day of additional capacity into the northeast markets.

On our Bluestone pipeline, we will complete ongoing construction, 100 million a day expansion by the third quarter of this year. Finally, on the Birdsboro lateral, we are in full construction mode. This 14-mile lateral is expected to be in service in the fourth quarter. So as you can see, we have a lot of positive momentum from projects in our GSP business, and we'll continue to update you as these projects progress.

Now I'd like to move onto the Power and Industrial business on Slide 16. Our P&I business continues to see progress in the development of both industrial energy projects and renewable natural gas projects. We began construction in the Ford Motor Company central energy plant that we have discussed with you in the past. We're also finalizing the agreement on another cogeneration project with a large industrial customer in the Midwest and expect to close that project this year.

In our RNG business, we have made good progress since our last call. We finalized the agreement on one of the gas capture projects we told you about and have started construction. This project is in Wisconsin, and we expect it to be in service in early 2019. Between these 2 business lines, we have been evaluating about 10 projects. As a result, we have closed 1 RNG deal this year and expect to close 1 or 2 deals on cogen/RNG space later this year. So we're feeling really good about the progress on our current P&I projects. We believe we have a good pipeline of future projects that will secure growth in this business.

We previously told you that our 2022 earnings goal was $70 million and that we need a $40 million -- $45 million in income from new projects developed between 2017 and 2022 to hit that target. By the end of this year, we expect over 2/3 of the $45 million to be in hand, only 2 years into the 5-year period. So given this, as Gerry said earlier, we expect P&Is earnings by 2022 to be materially above $70 million level.

Now I'll wrap up on Slide 17, and we'll open it up for questions. All in all, I feel great about the position we are in both for utilities and nonutilities to deliver another strong year in 2018. We delivered strong second quarter results and significantly increased the 2018 operating EPS and cash flow guidance. Our utilities continue to focus on necessary infrastructure investments to improve reliability and the customer experience. With additional expansions and business development, we continued sustainable growth for the nonutility businesses. Given this, I am confident that we are on track to deliver strong EPS and dividend growth that will drive premium total shareholder returns, and we are confident of our plans to reach our 5% to 7% long-term EPS growth target over the 5-year plan.

With that, I'd like to thank everyone for joining us this morning. And, April, you can open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Shar Pourreza from Guggenheim Partners.

Richard Jude Ciciarelli ***Guggenheim Securities, LLC, Research Division - Associate***

This is actually Richie Ciciarelli here for Shar. Just wanted to touch a little bit on your midstream growth strategy. Can you just provide a little bit more color on your evaluation process for acquisitions, like, how much is it from gathering and processing versus transportation assets? And can you just maybe touch on the long-term strategy, how much is fueled by acquisitions versus organic growth opportunities?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Well, the assets that we're looking right now are gathering and transportation. So there are some high-pressure transmission as well as gathering assets that we're looking at. In terms of mix into the 5-year future, there is a balance that we try to maintain between what I would call purely demand charges (inaudible) projects and what I would call demand and variable charge projects. So that mix we try to maintain. We try to maintain a good balance. So there's a balance of both gathering investments through acquisition as well as organic development.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

The other thing I would say is that we have had a pattern of building a platform and then expanding organically from the platform. And in many cases, our best growth comes from those organic expansions. So if you look at Millennium, Millennium led to Bluestone, which was an organic expansion. Bluestone led to some gathering, which has turned out to be a nice business line for us and that whole area continues to produce growth opportunities. So for example, we recently reached an agreement with Cabot there, which we think will be a good relationship, a positive relationship, for us in that area. And we see Link playing out analogously where we made an acquisition, but we expect that acquisition to lead to a host of agreements like the one we just mentioned, where we -- we've got board approval and are ready to ink a $250 million-ish investment with one of our counterparties there. So that's the thought process that has worked out well for us. And these acquisitions we are looking out are meant to repeat the same pattern.

Operator

And we'll take our next question from Julien Dumoulin-Smith from 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 I wanted to follow up a little bit here on the comment on the long-term guidance. Perhaps, just to kick it off, can you comment a little bit on how you think about the link size acquisition in the context of the 5% to 7% and how that may position you within that guidance range? And then separately, let me also just throw these other questions in there while you talk about the 5% to 7%. How do you think about the P&I segment, specifically, you talked about being materially above that? Certainly, in the '18 context, you're certainly tracking very well. How much of that is REF related versus some of these other elements like RNG? And when you say materially, can you maybe expand a little bit more on that?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Sure. So maybe I'll start with P&I. See, we're having a very strong year in 2018 and as Peter told you, we had focused on optimizing these projects and positioning them to get as much as we could out of them, which is going better than we thought. But we're also moving toward the phase where we're going to be doing tax equity transactions. And the goal there is to accelerate cash flows, and then redeploy those cash flows into other growth projects, debt reduction and equity reduction. So we're -- I think what we're going to see out of the P&I projects is higher earnings in the short term and then the long-term benefit will come from the higher cash flows that the projects will generate versus what was in our plan even a handful of months ago. Concerning our link-style acquisitions, we are looking at those. We're disciplined about how we go about those. So -- and we'll do it if it's right for us to do, but if it is, I think it would be one of the things that really helps us shore up our 5% to 7% growth targets. So we are saying if we do one of those, we're going to raise the 5% to 7%, it's really meant to achieve that. I'd say, in general, those platform investments, as I've described them, has surprised us to the upside. So the whole Bluestone platform certainly did. So far the Link platform is, we're seeing things come out faster on link than we had anticipated and we're ahead of the pro forma that we shared with you when we invested in the project back in 2016. And so our take for Link is, everything we've seen there is positive, and so if we think we can do another of those and we like the investment, then our history would suggest that there are fruitful places to firm up and fill out the growth plan that we shared with you.

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

The other area that we're seeing strength in P&I is our steel business. With the surge in steel production, we're seeing the value for coke that we produce go up this year, and we expect that will provide some value next year as well.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

And then long-term at P&I, I think Jerry mentioned this, we continue to add cogeneration projects and I think in part that's a reflection of the positive natural gas environment in the United States and the confidence that industrial producers have in their fuel. On top of that, there is a real push nationally to bring some renewable into natural gas. That's true both at the federal level through the EPA and in various states. So for example, California has a renewable natural gas push in the transportation sector. And currently, the sector is short supply. So it's providing favorable dynamics. And so on this renewable natural gas base, which is an area we haven't been doing it as renewable, but we've been doing waste methane capture for decades. It's an area we have the skills for, but it's one of these niches that I think we've stepped into that has some very favorable growth wind behind it. So we think that's going to be an attractive area for us to grow and it's one of the things that's convinced us that the $70 million number that we've been communicating for the last couple of years feels conservative now, and that we think we're going to materially beat that.

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

Got it. Excellent. Can you comment a little bit on the utilities then? I mean, you obviously alluded to some incremental capital spend, specifically renewables program, et cetera. You delineated a capital plan through '22 for electric and gas of 10 4 and 2 1, respectively, previously, can you elaborate just where you stand relative to those for us as well?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

We'll give you a full capital kind restack later this year, but I can say that the voluntary renewables has added about $450 million of renewable investment to plan that we communicated previously, and we also have the item Jerry mentioned, which is the acceleration of the gas main replacement as additional to the gas plant. And as a program that as we further look at both operating impacts, environmental impacts of an old system, we just think we've got to move and get that system fixed and modernized. So that's an acceleration as well.

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 lastly, on the GSP segment. Just to make sure I'm understanding what you're saying. Obviously, the Link would be incremental. How far above plan are you when you talk about your original Link investment that you talk about and/or anything else? I mean, is there anything new that we should be considering in the context of the 2022 CapEx plan and earnings growth target rate?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Well, I guess, I would say that we're multiple years ahead of plan. So in 2018, we kind of sit where we thought we might be in terms of volumes and so forth out a couple of years from now. And I'd say we've more than locked in -- kind of locked in our base case and are now working on upside to that. So we got to continue to produce good results there, but it's all better than being behind, I'll say that, to be well ahead of plan and the dynamics there continue to be positive. I mean, we bet on the asset because the reserves are such high quality and that's what's playing out. The nation continues to deplete and needs to drill to replace production, and this is a very good place to do that. So one of the producers there substantially increased plans versus what we thought they would do in the -- in our pro forma and it's accruing to our benefit.

Operator

And we'll take our next question from Greg Gordon from Evercore ISI.

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

Really impressive results around, all the way around the horn. Not to be the dead horse, but I know that you're -- you guys are very comfortable with the long-term plan, but when we think about the base of earnings that you're using for your 2008 -- for your 5% to 7% earnings growth target for 2022, I mean, I just want -- given that the steel business can be cyclical and that the REF business obviously has a tail, how should we think about -- despite the fact you're crushing in those businesses today, like, what base you're using to set that 5% to 7% earnings growth target because I just fear that the investors will get ahead of you or get behind you in terms of the long-term view on where you're going to be given the cyclicality in the steel business, the falling away of the REF stuff and there is some natural cyclicality too potentially in midstream. So I just want to get a sense of how you think about the endpoint versus the beginning point, and so we can rightsize our expectations?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

So we're still guiding up of -- where we always have off the initial guidance we gave you for 2018, and we're clearly seeing a very strong earnings performance this year. So if you look at GSP, for example, I mean, our guidance year-over-year is up over 40%. Our business is not going to be up 40% every year. So we're not guiding to that, but it's great to see your plans, your long-term plans evolve at the frontend of your investment period because it brings certainty and allows you to move on and focus on adding to that rather than trying to produce what you hope you could. So we're still guiding to 5% to 7% off of initial guidance from this year in 2022. And we know that, for example, in GSP, there may be times when we bring a lot to the table in a particular year and some year down the road, maybe slower, but that's fine as long as the overall growth rate is good. In P&I, we've talked about REF and the sunset there and harvesting cash flows from that business. We've been talking about that for 5 years or more. So that's not news. But the -- you mentioned steel. That is a business where I think the breezes are generally good. So people talk a lot about tariffs, where the prices for domestic steel are up some 20%, and we are seeing increased production. Probably gives us an opportunity here as we see that strength to bring some contract term to some of our position, so we would be looking to do that. And then some of the other business, as cogen and REF, those are all businesses where we see longer-term trends.

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Yes. I was going to add that the steel business is going to give us some favorability, of course, and already is, but the fundamental growth in P&I is driven by asset investment with long-term contracts and that's going to revolve around cogen deals that we're pursuing, and we're very close to closing on one this year -- another one this year. And the RNG deals, I mean, these are all asset investments with long-lived deals. So that's really the -- if you were to model where's the growth going to come from, P&I will come primarily from those 2 types of investments.

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

That's what I thought. I just want to get a sense. You actually will be replacing over time some of these more cyclical revenue streams with longer-lived assets with more predictable revenue streams. Is that your summary?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

We said last year or maybe even earlier that, what we needed in our longer-term growth plan out of P&I was $70 million of recurring earnings and that we needed $45 million of incremental earnings to achieve that. Last year, we've got $15 million of those incremental earnings. This year, we're projecting to get the next $15 million. So we're 2 years into the 5-year plan, and we're 2/3 done, and the fundamentals are more favorable than we saw a year or 2 ago. So when we put all that together, we think P&I is going to be an incremental arrow up to bringing up 5% to 7% growth, bringing certainty to all of that. It feels better than it did a year ago.

Operator

And we'll take our next question from Michael Weinstein from Crédit Suisse.

Khanh L. Nguyen ***Crédit Suisse AG, Research Division - Research Analyst***

This is Khanh for Michael. Just going back on the pipeline segment. So good performance this quarter and this first half, but what should we think about -- it seems to be implying the lower second half versus the first half?

Gerardo Norcia ***DTE Energy Company - President & COO***

Well, we've raised guidance in this sector, as Peter and Gerry have mentioned for the balance of the year. So we're not predicting a lower second half.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Yes. The second half is going to be strong just like the first half, which is why the guidance is up so strongly. And I mentioned the 40% growth rate year-over-year, some of that is taxes, but some of it is just fundamental volumes on our various platforms. So we expect a strong second half of the year as well.

Khanh L. Nguyen ***Crédit Suisse AG, Research Division - Research Analyst***

So far, is there any onetime nonrepeating items in this first half?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Not in the Gas Storage and Pipelines segment, there is no onetime.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

No, actually the only onetime nonrepeating item that I'd mentioned is 40% growth. I don't expect to see that repeat here.

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

As Gerry mentioned, the other was the tax change that you'll see the one-year bump around the tax reform and a lower corporate rate.

Operator

And we'll take our next question from Paul Ridzon with KeyBanc.

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

Just a follow-up on that, I mean, the first quarter you said, the [unregulated] businesses were coming out swinging and you plan to top end. And now, with the second quarter under your belt, you're actually raising guidance. Kind of -- is there any conservatism built in there for the second half of the year?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

You mean, do we have any contingency left?

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

Yes.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Yes. We have some room left if we were to run into unfavorable weather or storms, et cetera, we could cover those.

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

I would just -- at the unregulated businesses. I mean, is there -- kind of how much more strength are you baking into the second half of the year and is there an upside to that?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Paul, this is Peter. In terms of the guidance on nonutilities. We're feeling really good where we're at right now with the nonutility segments. As Gerry mentioned, we do have contingency still in our utility segments. Depending how weather plays out, we may have upside overall to guidance, but it will be coming from one of our utility segments.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

We mentioned the mix of weather in the second quarter, cold April, (inaudible) hot May and so forth. But June was warm and so is July. July is playing out warm too. So from a weather standpoint, it's been favorable, and that gives us some strength through weather in the utilities, which cover some of the -- provides some of the contingency we're talking about and could we conceivably see a little more out of the nonutilities? We'll just have to see how the year plays out. Possibly, but we're giving you the best guidance we can.

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

Gerry, you mentioned as you look out at some forecast for the out years that some people are light and one of those issues is the utilities forecast. Is there any aspect of that, that you think might be missing? What are they missing?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Yes. In regards to the utility forecast, despite the point of clarification post tax reform, we think people maybe a little bit light, our earnings will be growing 1% faster than rate base for both utilities. For electric utility, rate base growth is 6% to 7%, so I reckon those earnings growth will be 7% to 8%. And for gas utility, our rate base growth is 7% to 8%, so our earnings growth will be 8% to 9%, and that is because as we're giving back cash, deferred cash to our customers, we're replacing that with equity over time this time frame. So we believe that some people are missing, the nuance post tax reform, this increase of equity is coming in to both utilities, which provide earnings growth over and above rate base.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

To answer (inaudible) capital is financed with more equity and less deferred tax in our base. So that's the effect Peter just mentioned. Then on top of that, there are -- renewables is an area where we're seeing customers reach out and working with large customers and just wanting higher percentage in their mix, and that's I mentioned, just short of $0.5 billion we're thinking in the 5-year plan for that and then the gas main replacement program. So the combination of some additional important investments, along with the shift in how the utility is financed is where we think the difference is.

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

Where do you see the 2022 equity layers at the electric and gas utilities?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

They are currently around 38% when you look at the overall capital structure. So that will start bleeding in. We don't have to really disclose the precise numbers. But I think it's really about $70 million a year that we're providing back to customers across both utilities, about 35% of that will be going into both utilities. So there is a [phase] when it probably gets into the more low-40s by the end of the 5-year period.

Operator

And we'll take our next question from Jonathan Arnold with Deutsche Bank.

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

Quick question on, so you talked about the IRM that you filed in the electric rate case and that it would help you defer having to file annual cases. Can you go -- I mean, how long do you think you would potentially be able to stay out with that mechanism?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Well, we're targeting -- I think you'll see in our filings we're targeting multiple years as an approach, but that's something to be worked out with the commission staff and the commissioners over time here as to how long we could stay out, but we're looking for at least 2 years and if things play out well beyond that, but that's what's in our current filings.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

So we've got in the IRM our new -- look if I step back in the IRM, what we've been talking to the commission and the commission staff about is elements of our capital that are driving rate increases, but are totally predictable and agreed upon. So this gas plant, for example, we know the schedule, we know the cash -- what cash flow is going to look like. So covering that in IRM is something that could make sense. We've also been talking a lot about our long-term distribution investment plan and trying to reach agreement with the commission and staff on what that should look like for customers. Once agreed upon, that's not something that needs to be an ongoing basis of rediscussion in rate cases, it just needs to be executed and reconciled. And so we're trying to bring those sorts of items into the plan to focus rate cases on things that really are extraordinary, how are sales changing, how are cost changing and so forth. That needs to be done less frequently than every year. And so I think the commission recognizes that and we do too. We've been clear with the commission that we think this IRM can reduce rate case frequency and that is our goal. We've also been clear that we can't promise some stay-out period because you never know what happens in the world. So I think the understanding on our side and theirs is that the goal is to reduce frequency without a specific locked-in target as to what that means.

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

Great. And if I had you correctly, you feel you've been able to have sufficient dialogue with the commission and staff that what you filed is likely to be aligned with something they'd find acceptable?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

We had many rounds of dialogue with them. So I can never kind of prejudge where the commissioners will land, that's their call. But we did try to take a process where we had many rounds of detailed discussion about what would make sense to them and what made sense to us and where our needs lie and so forth.

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

Great. Okay. And then just quickly on NEXUS, you're now saying you expect to fill in terms of contracts after it enters services. Are you still saying the same as you were saying last quarter there effectively or is -- I think you were saying around the time it enters service. So I'm just curious if that is a shift or no shift?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

Now that I'd say that last quarter, we were saying that we are holding onto capacity that we feel is really valuable in this basin as capacity become short in this basin and a growing -- very quickly growing basin. So we've got -- continuing to have discussions with producers, detailed discussions for capacity commitments, and we're trying to maximize volume in term, and we think this will play out once the pipe goes into construction and in -- or is in construction and goes into service. So we've seen intensive discussions heat up as we predicted, as we went into construction and we look forward to concluding deals here as we go into service that give us the price and term that we're looking for.

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

Would you expect that to happen in this calendar year?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

So Jonathan, let me just add, then I'll answer that one, is that I think we've been saying for probably a couple of years that the way these things play out is a series of discussions happen once your pipe is in construction and people believe that they know it's going to be there and that absolutely has played out. Our team is in deep discussions with multiple producers at a scale that is very significant. So that's promising. For a variety of reasons, these deals are going to close after the pipe is in operation and that's probably all I can say on that. But I think we will see deals close not over multiple years, but I think it's going to take months for what Jerry talked -- to play out, so considerably see late 2018 into 2019 for these discussions to play out, and the reason is that people see the basin going short takeaway capacity in a couple of years, the writing is on the wall for that. And so as producers try to set up capital plans in '19, '20 and beyond, they can't stop capital plans until they've got takeaway, and so that's what people are talking to us about. And as Jerry said, we're going to make sure that we use what we think is a really valuable resource and a basin that's going to go short in the best way for DTE and its partner.

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

Great, okay. And then just a quick -- your comments on equity, are those sort of -- do those encompass doing a Link-sized acquisition? Or would that be a presumably change your comments on equity?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

That would change the comments that we did in acquisitions. Some of the Link we'd be issuing shares just for that project and itself, that project will support the additional equity that we'd be issuing.

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

Okay. And then just one other thing on the RNG project, you talked quite a lot about that business here. If I'm not wrong, those are -- that business kind of keys off of the rent values in the RFS program, and I'm just curious how you have long-term visibility on the value on those contracts given that the program sunsets in 2022? And just getting further insight, you could just sort of give us on how much term visibility you have on what the earnings are likely to be on these deals in the longer term? And then maybe I am incorrect about some of that.

Gerardo Norcia ***DTE Energy Company - President & COO***

Well, some of the first deals that we did have long-term offtakes. So that was very valuable to us. And there is an ability in the market to hedge some of these products that we're producing. So that is one of the ways that we're going to manage cash flows going forward, but based on what we see and sort of the requirement that's been established by Congress for provision to provide these fuels, we see the market remaining short on supply and long on demand, which we think will continue to put a lot of pressure on, upward pressure on pricing. So again, multiple strategies. One is long-term offtakes with counterparties, bilateral arrangement as well as hedging programs that help secure cash flows for the future.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

The other thing I was thinking that the RIN program is one source. And by the way, that's not short, it's way short supply-demand, and it has been consistently supported through congresses of every stripe and EPA, by the way, of every stripe as well. So it seems to be a durable program that has a provision that's just got a supply-demand gap that's not going to be closed anytime soon. But actually, some of the deals are not driven by that market, that could be a support market, they're actually driven by state markets. So, for example, California has a market that wants to pull renewable gas in its transportation sector and some of our deals are directed at that market and its dynamics. And again, there are producers there who need to fulfill those obligations and we are supplying gas to those counterparties.

Gerardo Norcia ***DTE Energy Company - President & COO***

One of the other features that makes this market attractive for us is that as we look at IRRs and cash flows, the simple payback is very fast. So the exposure to market fluctuations is less of a concern from an IRR perspective.

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

From sort of filling in the REF fall off perspective, what is your visibility on the sort of post '22 pricing on these deals?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

I think -- first of all, I think they're actually really good dynamics in terms of filling in those earnings because they're strong earnings and good returns. And I think, as Jerry's been implying, we've got visibility through that period. Could Congress change out in late 2020, I suppose? That's possible, but there's -- we've seen no sign of that. There's just been very durable support in Congress for these sorts of provisions. But beyond that, I guess, I would point you away from Congress to more some of the local markets that we're supplying, which have been, if anything, stronger and deeper into these sorts of provisions.

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

Okay. So how long are the deals you've signed so far? Can you disclose that?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Actually, we don't disclose deal-specific terms because we're negotiating other deals. So we'll probably keep those proprietary, but we can give you a feel for how we view this business long term as we shed more light on it down the road.

Operator

And we'll take our next question from Andrew Weisel with Scotia Howard Weil.

Andrew Marc Weisel ***Scotia Howard Weil, Research Division - Analyst***

Just a couple of quick ones on the utilities. First question, as far as generation, with the increased renewables spend in new gas plant, is there any change that you're thinking from a supply-demand perspective as far as generation needs over the next, say, 5 to 10 years? Or would the incremental renewables come as a replacement for something else you've been thinking about, whether existing or new?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Well, I don't know if you noticed the discussion in the state on long-term renewables that happened. So we had a ballot initiative emerge in the state that was going to push Michigan to a 30% renewable standard. I actually wasn't crazy about it because it was from someone outside the state. The state was very well aligned behind what was happening here. We actually had Republicans and Democrats and environmentalists and utilities on a common [team] sheet, but what happened interestingly out of that whole discussion about a ballot initiative was an agreement that came out that targeted a 50% clean energy standard, which is when you dig behind what that means, it implied for us, 25% renewables by 2030. And when you look beyond this current renewable plan that we said had some upside for customers that are requesting voluntary increases, we think it implies in the 2022 to 2030 period incremental investment in renewables to what we would have had to some measure. So we're -- and I think that one thing I'd say is that as we continue to see renewable cost go down, I think those go hand in hand. So I would expect that renewable investments in the 2022 to 2030 period will probably surprise to the upside given trends on technologies and on the agreement that was just reached.

Andrew Marc Weisel ***Scotia Howard Weil, Research Division - Analyst***

Okay. Then on the IRP scheduling, you guys are going to be going next year whereas your neighbors are going this year. What, in particular, will you be watching for to see how that process unfolds and what you might be able to learn from them being the Guinea pigs, so to speak?

Peter B. Oleksiak ***DTE Energy Company - Senior VP & CFO***

I think we'll certainly watch it very closely, I mean, their proceeding and we're looking to file in March. And we filed a version of IRP under the old legislation as part of our con filing. There's definitely going to be filing for the new power plant that we're going to build. So we'll be updating it. I don't think their -- we don't expect fundamental shifts in our plan. So I think you can rely on the current IRP that was filed as a projection into the future. We may update the renewable investments as we -- as Gerry mentioned, we start to think about the -- how the next decade may evolve, but that will only likely mean a higher renewable content for business.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

And one of the things that I think people need to realize about us versus our neighbors is our starting points are different. So they have a much higher gas mix currently than we do. I think their mix is on the order of 30%, ours is much lower. So our gas plant made sense from that perspective. And then I think one of the things we'll be watching as technologies evolve is the need for another gas plant in the late 2020s versus the ability to handle that via renewables, and time will tell on that. We'll just have to see how with our load and technologies evolve. But that will be one of the things I'm sure that we evaluate in the IRP next year, scenarios that evaluate both potential outcomes.

Andrew Marc Weisel ***Scotia Howard Weil, Research Division - Analyst***

That's helpful. And that's certainly tying back to my first question as well. Lastly, just a quick run on NEXUS, you previously talked about waiting for talk about -- for talking on some of the expansions, whether it's compression, looping, all the other good things that you've done at Bluestone and Millennium, should we still be thinking of those types of announcements coming only after you have commitments in excess of the initial capacity?

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Yes, that's correct.

Operator

And this concludes today's question-and-answer session. At this time, I would like to turn the conference back to today's speaker for any closing or additional remarks.

Gerard M. Anderson ***DTE Energy Company - Chairman & CEO***

Well, again, I want to thank everybody for joining the call. As I said at the beginning of the call, we had a great first half of the year and our increased guidance shows that. Second half of the year, as I mentioned, I think we're really well positioned also. So I think you'll see -- I was not really surprised that 2018 will be a strong year. I also feel really good about the position that we're in to continue the track record of delivering premium results that we've shown over the last 11 years. So we look forward to providing you with updates as we move through the year and as we move through our longer-term plan. Thanks for joining. We look forward to talking to all of you soon.

Operator

This concludes today's presentation. We thank you for your participation. You may now disconnect.