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DTE Energy Co. (DTE)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the DTE Energy First Quarter 2020 Earnings Conference Call. At this time all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions] Thank you.

I'd now like to turn the conference over to your speaker for today, Barbara Tuckfield, Director of Investor Relations. Please go ahead.

Barbara Tuckfield

Director, Investor Relations, DTE Energy Co.

Thank you 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 earnings to operating earnings provided in the Appendix of today's presentation.

With us this morning are Jerry Norcia, President and CEO; Peter Oleksiak, Senior Vice President and CFO; and Dave Ruud, Senior Vice President and Incoming CFO effective May 4. And now I'll turn it over to Jerry to start the call this morning.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well, thanks, Barb, and good morning, everyone, and thanks for joining us today. First off I just want to say to everyone listening that I hope you and your families are healthy and safe. It is a very difficult time for everyone and we are doing everything we can to try and help limit the pressures that all of our customers and communities are facing. I also want to thank the tireless efforts of our employees who are out there every day ensuring the community has safe and reliable service.

We are holding this earnings call from separate locations as we follow our shelter in home guidelines. This morning I'm going to provide details on how COVID-19 is affecting our business and what we are doing to respond to the challenges that it has presented. I'll also provide highlights on the progress of each of our business units. Then Peter will provide a review of our financials. And then we'll wrap things up before we take your questions.

Now let's start on slide 4. At the state level, a group of business leaders, medical experts and government officials have come together to develop recommendations on how to restart the Michigan economy as quickly and as safely as possible. Our Executive Chairman Jerry Anderson is the Co-Chair of this group that was set up by the Governor. Our expectation is that the first part of May, the construction industry resumes this work and the autos and the other industrial companies start to resume operations later in May. Here at DTE we plan to resume our construction and maintenance work the first part of May. I'll provide more detail on these plans a little later in the discussion. We are working very closely with state and local leaders as well as our regulators to respond to this crisis in a way that is best for all of Michigan's residents. During these difficult times, regulators and companies can come together or they can come apart. And in Michigan, we have been working with our regulators and state government to come together during this pandemic.

Now let's talk about what our company is doing to respond to this crisis. Throughout the COVID-19 crisis, our priority has been the health and safety of our employees and customers. We are working on multiple fronts to ensure that everyone at DTE is safe as we continue to deliver safe and reliable energy to our customers. We are also working to address the needs of our community through philanthropy and volunteerism.

As far as the impact that this crisis will have on DTE's financial plans, I will just say we are planning for a significant impact. Although no one knows exactly how this will play out over the year we believe we can mitigate the challenges to our original plan with management actions. I will go into more details on these actions in a few minutes but I want to reassure you that we have a plan to achieve our financial targets. This plan allows us to reaffirm our original operating EPS, cash and capital guidance while maintaining a strong balance sheet and continuing to offer a healthy 7% dividend increase this year. I'll provide more color on the assumptions in this plan and the biggest variables as we move deeper into the discussion. DTE has a proud heritage of rallying at the toughest of times. Whether we're dealing with catastrophic storms or economic crisis, in every case we emerged a better and stronger company. There is no doubt that the work required of us today set us up for another successful decade.

Now let's move to slide 5 as I talk more about our efforts fighting this pandemic. To ensure the safety and well-being of our employees we implemented work from home in mid-March and currently we have over half of our employees working from home. This is going well and our systems are working great and supporting our people. We sequestered key operating personnel in an orderly and prioritized way to ensure we have the right mix of operating personnel to continue with reliable and safe operations. And we have also taken a pause in all non-essential work of some of our employees to ensure that we are doing all we can to keep them safe as we gain further understanding of the virus.

For our employees who must leave their homes to perform essential service for our customers, a big thank you. They haven't missed a beat in the work they do and have maintained excellent operations. We have equipped these employees with the proper protective equipment such as masks and protective suits for entering homes, we are performing our tasks with safe social distancing and are regularly sanitizing our facilities, trucks and tools.

Every employee that leaves their home gets their temperature checked every day. We have created detailed return to work plans for our employees and will follow the guidance of our state leaders. As I mentioned, we are deeply involved in developing these practices. We will restart our construction and maintenance activities in early May and ramp up through the month. We expect our office employees to remain at home into the summer as we determine when it is safe to return. We will continue all the safe practices I just mentioned which have been very successful in mitigating the health impact of this virus for the thousands of DTE employees that leave their homes every day to perform their work.

Now let's move to the next slide. From a community perspective our foundation is supporting the basic needs such as food and shelter for over 100,000 families, funding more than 1 million meals to those who are in need and ensuring that families have access to core medical services. We created an emergency stabilization fund to aid nonprofit organizations and small businesses. Today, we distributed more than 4,000 respiratory masks to the Detroit Police Department and over 900,000 respiratory masks to area hospitals and plan to deliver more of these critically needed masks.

We are assisting faith-based institutions which are a trusted resource for community members. I also have personally hosted many calls with faith-based leaders and social agencies in order to more deeply understand the needs of the community. We are also partnering with the City of Detroit, philanthropic organizations and business leaders to enhance high speed internet citywide and providing devices to over 50,000 students, ensuring they continue their education during these tough times. We are matching charitable giving of employees, contractors and DTE alumni to support nonprofit services. Our employees are virtually volunteering at different organizations to assist their communities while ensuring everyone's safety and well-being. Our employees have stepped up during this time to continue to do the work that is so critical for our communities. And that is to deliver reliable power to our customers in the safest way possible. I'm extremely proud of all of our DTE family. This is just another example of our employees coming together when it is most critical to respond to the needs of our communities.

Now let's move to slide 7 where I'll start to walk you through the expected impact of this pandemic on our business. We have spent a lot of time over the last few weeks understanding the potential financial impacts of the pandemic, building and implementing a plan to react to these challenges. While we updated our forecast for the balance of the year, we looked at the potential sales impacts and additional costs associated with COVID-19 and also recognize that we were down in the first quarter against our plan due to warmer than normal weather along with other economic impacts offset by favorability of the non-utilities. These changes are larger than the contingency that that we normally carry in our annual plan. So [ph] when we rolled all of these (09:52) up, we saw \$60 million of earnings pressure that we needed to offset.

We went to work to create a new plan that not only covers this \$60 million shortfall but at least doubles this to build up additional contingency to cover other potential impacts including a potential slower return to work in Michigan causing even higher COVID-19 impacts, a potential cool summer and warm fall, or our non-utilities only hitting their annual plan. Currently, we are ahead of plan at our non-utilities and our assumption is that this favorability has held this contingency for the balance of the year. We feel it is prudent to plan to cover potential earnings pressure from these items even though all of them may not occur. This is how we've been able to

reliably deliver on earnings targets in the past. This is a conservative plan. We have over \$2.5 billion of O&M to manage through lean times as well as the benefit of investing incremental O&M ahead of schedule in previous years. We faced recessionary pressures before in 2008 and 2009, but we came through that time stronger than ever, achieved operating EPS and cost reduction targets and exceeded cash from operations guidance. We are facing similar pressures and I'm confident that we have built a robust plan to respond to these challenges.

On slide 8, I will discuss the sales scenarios we created to understand the potential impacts of COVID-19 on our business. We have been putting together some recessionary scenarios based on assumptions of Michigan's timeframe for returning to work. Our goal with these scenarios is to size the impact and communicate that with you. However, we realize that no one knows for sure how this will evolve. Slide 8 lays out some of these assumptions for our two scenarios. One scenario assumes that our return to work begins in May. And the second scenario assumes a slow start case. For our scenarios we have the advantage of our advanced metering capabilities which allows us to see sales changes real time. AMI data has given us great information on a daily basis and it really has been a powerful tool that gives insight into how this crisis is impacting our sales. I'll go over a few of the details of our May start scenario. Construction, manufacturing and outdoor businesses will begin to return to work in May and advance throughout the year. Non-essential retail, restaurants and lodging start returning to work during the summer months. Non-essential office work starts later in the summer and universities and schools return to normal in the fall. The result of developing these scenarios is an estimated impact on our electric sales by each class.

Now I'll go over these sales impacts. As you might expect our residential load has been stronger with more people at home and it has increased by 10% to 11% in April. However, our commercial load has dropped by [ph] 16% (13:03) to 18% and our industrial load has dropped by 40% to 46%. We believe we have seen the bottom for our load at this point. Michigan remains under the stay at home order with only essential businesses operating and our load has been pretty consistent over the last several weeks. AMI data has allowed us to see the load by major customer class and the impacts by subsegment within each of these categories including groups like auto, hospitals, grocery stores and schools. This gives us some very powerful analytics to be able to understand what is happening with our load.

We use these analytics and the insights from the return to work plan at the state level to come up with the forecast scenarios I discussed on a previous slide and the impacts on earnings under each scenario. You can see on the slide the estimated electric sales impact from COVID-19 pandemic is \$30 million to \$50 million. Understanding that none of us know exactly how this will all play out, we estimate a range for each customer class using the parameters of the two scenarios we laid out. For residential, we estimate an increase of 3% to 4% for the year due to folks working from home part of the year. This increase in residential sales translates into an increase in earnings of \$40 million to \$50 million on an annual basis.

For commercial sales, we estimate a decline of 6% to 9% which translates to a decrease in earnings of \$50 million to \$75 million. And finally on the industrial side, we estimate a decrease in sales of 18% to 22%. This translates to \$20 million to \$25 million in lower earnings for the year. We put these all together in a focused economic recovery plan to ensure that we can deliver within our guidance range. I'll discuss that plan more in a minute. Obviously, many different scenarios could play out, including ones that are more favorable or those that are less favorable. Under a less favorable scenario, we would have to reassess our economic recovery plans to ensure it could address all of the challenges. The pace at which load returns is one of the largest variables in our economic recovery plan.

Now let's turn to slide 9. Our management team typically conducts weekly reviews of our plan and in this time of economic stress, we have been reviewing it daily. As we have discussed before, we have robust planning that

includes starting every year with contingency across all business lines. We also have lean plans that we can pull off the shelf, while this year we needed to add additional steps to our process including a daily executive management review of the current year financials and additional one-time actions to achieve our goals. Since much of the annual contingency will be used for weather this year, we will now work from our deeper lean playbook which includes a list of one-time items to reduce costs in the near term that are not sustainable over the long term.

Some of the triggers that we will pull include pausing on any new hires, minimizing overtime, reducing contract and consultant spend and deploying our people into those required activities and deferring bank maintenance work that we accrued during the last three years. We are also able to reduce materials and support expenses, decrease travel expense, accelerate automation, work from home projects and postpone non-essential work always with maintaining safety as our highest priority. With all of these lean actions I am confident we will achieve our financial goals for the year without sacrificing safety or customer service. Now I will turn it over to Peter to share our financial results for the quarter, provide a snapshot of the financials for the remainder of the year.

But before I do, I'd like to take this opportunity to thank him for his dedication to DTE over all these years. I'm sure you all know that Peter has decided to retire this year. I'm happy to see him get to pursue his life outside of DTE. We've had many good years together and I would miss him as a trusted leader. The good news is that he has agreed to stay on as an adviser as Dave Ruud transitions into the CFO role. With that I'll turn it over to Peter.

Peter B. Oleksiak

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

Thanks, Jerry, and thanks for those kind words and good morning, everyone. First of all I want to thank everyone for all the congratulations and well wishes I've received from so many of you. I've been fortunate to work closely with all of you over the years and appreciate the relationships we built together. I'd like to thank the DTE family with whom I've had spent over 20 years and I congratulate David Ruud on his appointment to the CFO role and I will be fully supporting him during this transition. It's a little bittersweet to be on my last DTE earnings call but I'm excited about this new chapter in my life.

Now to my last update on my Detroit Tigers. My Detroit Tigers are keeping safe like everyone else while also contributing to the community in Covid-19 response efforts. Now I'm looking forward to the MLB draft in June where my Tigers have the number one pick. But I'm really looking forward to is we all can return safely back to the ballpark to watch a game.

Let's move on to our financial plan update on slide 10. Total earnings for the quarter were \$320 million. This translates into \$1.66 per share for the quarter. And you can find a detailed breakdown of EPS by segment including a reconciliation to GAAP reported earnings in the Appendix. Let me start my review at the top of the page with our utilities. Overall this quarter was warmer than normal and was the sixth warmest on record. DTE Electric earnings were \$94 million for the quarter which is \$53 million lower than 2019 largely due to warmer weather, non-qualified benefit plan investment losses and implementation of higher depreciation rates offset by a new rate implementation.

Just a quick note on the benefit plan investment losses since it was a big driver in the quarter, our non-qualified employee benefit plans are substantially funded and backed by investments similar to our pension plan. Unlike our pension plan the investment changes are recognized immediately versus smoothed over time. These investments were down approximately 15% in the quarter.

Let's move down the page. DTE Gas operating earnings were \$30 million lower in 2020. The earnings decrease is driven primarily by warmer weather. Let's keep moving down the page to our Gas Storage and Pipeline business on the third row. Operating earnings for our GSP segment was \$72 million for the quarter. This is driven by our Blue Union acquisition and higher pipeline earnings at our other platforms. As a result this quarter is up \$24 million versus the first quarter of 2019. Our GSP business performed ahead of plan in the first quarter.

On the next row you can see our Power and Industrial business segment operating earnings with \$30 million. Earnings were \$4 million higher than the first quarter of 2019 and this increase is due to the co-generation and R&D projects offset by lower REF volumes. P&I also performed ahead of plan. On the next row you can see our operating earnings at our Energy Trading business were \$14 million. Earnings were \$9 million higher in Q1 2020 as compared to Q1 2019 due to Power portfolio performance. The Appendix contains our standard Energy Trading reconciliation showing both economic and accounting performance. Our Energy Trading business had a very strong first quarter. Finally, Corporate and Other was unfavorable \$8 million in the first quarter of 2020 compared to the first quarter of 2019 and this is due primarily to the timing of taxes. I'd like to note that \$27 million of the \$54 million variance was anticipated in the plan. Overall DTE earned \$1.66 per share in the first quarter of 2020.

Now let's move to slide 11. As Jerry mentioned we are well positioned to achieve our 2020 guidance. The assumptions underlying that comfort include Michigan starting to go back to work in mid-May, sales increasing for residential customers by 3% to 4% for the year, decreasing for Commercial customers by 6% to 9% and decreasing for Industrial customers by 18% to 22%. Recovery will be slow and continue into 2021. Earnings over the balance of the year include growth at our utilities from rate orders in May and September, contracted growth from our non-utilities including our Blue Union, LEAP acquisition at GSP and RNG and cogeneration projects at C&I and the execution of our economic response plan.

Now, let's move to slide 12 to discuss the balance sheet. As you know maintaining a strong balance sheet is always a priority for us. We continue to have a strong balance sheet which gives us the ability to maintain our capital plans and liquidity position. Our Treasury team acted at lightning speed to increase our liquidity when it was apparent that the financial markets would be choppy for some time to come.

We have \$3.2 billion of available liquidity as of April this year and that's up from \$1.6 billion at the start of the year. This includes a significant credit facility backed by a portfolio of large banks. Now, we issued \$1.7 billion of long-term debt at DTE Electric in 2020 at extremely favorable rates and secured big term loans with additional liquidity which significantly mitigate commercial paper and capital markets risk.

Moving on to the next slide, our leverage and cash flow metrics are within target ranges and we are planning on achieving our capital guidance. We will maintain solid investment grade credit ratings and focus on our top tier cash control management and are targeting the low end of our 2020 equity range.

Before I turn it over to Jerry to talk about our business update and wrap things up, I'd like to thank everyone listening in. It's been a great journey working here. And I may see some of you on the road in the future at your city's baseball stadium. Now I'll turn it back over to Jerry.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well, thank you, Peter. And I'll pick it back up on slide 14. We've made a lot of progress on all of our businesses in the first quarter and I'll be highlighting some of those successes on the next few slides. At DTE Electric where we filed our IRP back in March and the MPSC approved our plan, increasing our energy efficiency to 1.75% in

2020 and 2% in 2021 and filling our capacity need in 2030 with a mix of wind and solar. We filed our updated renewable plan this month. Also on the regulatory front, we expect to receive an electric rate order in early May. And through our conversations with the MPSC, this rate order will not be delayed. We continue to expand our voluntary renewable program and currently we're ahead of our five-year plan we mentioned at EEI back in November of last year.

In 2019 we added over 400 megawatts of voluntary renewable energy for our commercial customers and reached 10,000 residential customers who committed to voluntary renewable power. 2020 is off to a good start with General Motors subscribing an additional 250 megawatts. [ph] Today we are (25:03) ahead of pace on our five-year plan for voluntary renewables. We look forward to increasing our voluntary renewable base of customers and continuing to provide clean and reliable energy.

Our Blue Water Energy Center which is an 1,100 megawatt natural gas plant that we're building is also progressing on plan. We're over 50% complete with an expected spring of 2022 in service date. It supports our carbon reduction plan by reducing our carbon emissions by 70% compared to the 3 coal plants that we're retiring. Overall, I am feeling confident that our Electric business will have another successful year in 2020.

At DTE Gas we received the approval from the Michigan Public Service Commission for our first gas transmission renewable project. The project is in the design phase and construction should begin mid-summer of this year. We put a pause in our main renewal project and expect to resume work in May. Last year we completed 180 miles of main renewal. We are targeting approximately 180 to 200 miles this year. Overall these projects showcase DTE Gas's commitment to provide safe and reliable service for our customers including our commitment to 80% methane reduction by 2040.

Now, let's move to slide 15. Our non-utilities continue to perform well and are on track to achieve 2020 targets and are well positioned to deliver the long-term growth we have laid out. As Peter mentioned they really prove to be very valuable and are currently ahead of plan. At our Gas Storage and Pipeline business the integration of our Haynesville asset is going very well. The investment is performing as expected and the LEAP pipeline is on track to be completed on time in the third quarter of this year.

The GSP business is producing strong adjusted EBITDA in 2020 with a range between \$665 million to \$703 million. Our assets are well positioned and are supported by strong contracts and our producers are drilling according to their original schedules. We continue our due diligence to review our producers' credit metrics and model their liquidity and ensure that producers are paying their bills. Our fixed fees are supported by the fact that the majority of our producers in 2020 are 85% hedged at approximately \$2.75 and 50% hedged in 2021 at \$2.65. We are also encouraged with the strengthening of the gas price complex in 2020, 2021 and 2022.

85% of GSP's revenue is covered by fixed revenue contracts of flowing gas over a three-year period. Our major producers are in solid positions, are highly hedged over the next couple of years and [ph] exit the premium market (27:56) have minimal near-term maturities and the contract structure is robust that includes demand fees, MVCs and credit provisions.

In addition, longer-term natural gas supply and demand fundamentals remain attractive. We believe the supply correction for natural gas has started with the reduction of drilling activity especially in the oil basins with associated gas. Gas demand is forecasted to grow 2% through 2030 mainly driven by LNG exports. Wood Mackenzie expects supply to come from areas where our assets are located including the Northeast and Gulf Coast.

While the demand is forecasted to grow, supply will be pressured to remain flat. Given decline profiles of flowing wells, 19 Bcf a day of new production is needed just to keep supply flat. Current low oil prices will decrease oil production and associated natural gas production could positively affect us due to our position in the dry natural gas market. With that said we continue to focus on organic growth and value creation from these and our other well positioned platforms.

Now let's move to slide 16 and discuss our Power and Industrial business. Our P&I will continue to focus on the development of RNG and co-gen businesses for driving long-term earnings to backfill the sunseting REF projects. Wisconsin RNG and Ford Motor projects are fully operational this quarter. We originated our targeted earnings since 2017 and are targeting \$15 million in new projects per year. And there is a good pipeline of projects that we are reviewing. Business holds up well in recessionary times. And we didn't see much variability in the 2008 and 2009 recession. Going forward, we will continue to develop additional RNG and cogeneration projects with additional targets and early screening. The de-carbonization across the energy sector continues to support RNG development and will bring other associated opportunities for our P&I business.

Now let's move to slide 17 to wrap things up. Overall, we have been presented with some significant challenges at the first quarter related to warmer than normal weather and the emergence of the COVID-19 pandemic. As you would expect, our leadership team and our company sprang into action to rapidly respond to these challenges. We have modeled the depth of the crisis and created ranges of possible impacts. We are fortunate to have AMI data which allows us to understand current impact and calibrate our modeling assumptions going forward. At a detailed level, we have created a viable response to the impact on our earnings and cash as it relates to these scenarios which gives us the confidence that we will deliver on our 2020 targets. We will execute this recovery by focusing on the safety and wellbeing of our employees, providing support to our customers and addressing our community's most vital needs and continue our track record of delivering for our shareholders while maintaining strong credit metrics and a strong balance sheet.

With that, I'd like to thank everyone for joining us this morning and we can open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Your first question comes from the line of Shahr Pourreza with Guggenheim Partners. Your line is open.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Hey, good morning, guys.

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Hey, good morning, Shahr.

A

Peter B. Oleksiak

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

Good morning.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

So just a couple of questions here. First, did you call out that \$60 million headwind with plans to sort of offset that in slide 7? Just what scenario from slide 8 are you embedding in the \$60 million assumption for the year, is it the May, is it the slow start scenario? And does sort of that \$60 million offset get you to the midpoint of the 2020 guidance range assuming normal weather obviously?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

So, great question, Shahr. So I'll start by saying it does address the May start in terms of earnings impacts from sales reductions, so the \$60 million, just to go through it, deals with the COVID sales reduction at \$30 million, the incremental costs associated with the COVID-19 pandemic but also incorporates the results of the first quarter that were driven by weather and the trust performance as well as the durability of the non-utilities and it also considers the original contingency in the plan. So that delivers the \$60 million earnings pressure that we have to go and find and replace with a further contingency development. As well as we're also considering further delay, the other \$20 million in our contingency development and potentially unfavorable weather in the summer and fall. So those are the things that we are building in addition to the \$60 million. So we're going to build a response to the \$60 million, in addition to that we're going to build a contingency around that \$60 million to address potential further degradation in sales or unfavorable weather.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Okay.

Q

Peter B. Oleksiak

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

A

Yeah. And Shahr, this is Peter. I mean, that continues to be built. It's about double that \$60 million. So we understand there's uncertainty in the plan so we're going to be developing a contingency really to cover that.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

And then just get the normal weather if we assume normal weather and the summer weather does return, are you comfortable sort of with the midpoint of that earnings guidance?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Yes. We're comfortable with the midpoint and we're actually even building contingency beyond the \$60 million share to accommodate things like cooler than normal weather or perhaps with a warm fall.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Perfect. And then the detailed lean plan is targeting that \$2.5 billion O&M budget. With sort of those lean actions you guys guide to on slide 9 that's embedded in the \$60 million offset, do you need to sort of rebuild this contingency throughout the remainder of 2020? How much of it is sort of locked down and how much of that's sort of O&M budget you expect to flex as one-time? Is there any of it that could be perpetual for sort of forecasting purposes? And maybe just a little bit more specificity and I guess any dollar amounts in the \$2.5 billion budget you think you can flex?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Well, as Peter mentioned our target to build contingencies is approximately \$120 million to \$130 million which is much more than the \$60 million and the reason we're doing that is to ensure that we have plenty of contingency in our \$60 million [ph] budget (35:28) and in tactics that we'll be using, we'll be delaying additional hiring, minimizing overtime, reducing our contractor and consultant spend and really deploying our people into that work as well as, Shahr, we've developed the deferred, we've developed a bank of maintenance work over the years that we can now defer without sacrificing safety or service. We'll also be looking at other items such as reducing materials and support expense. Those are the big items and we've got a very detailed plan. I will tell you that about a month ago we saw this evolving and we started to study our load. And then looking at how return to work could happen, we sprang into action and have built a very detailed plan at each of the operating units to go after this \$120 million to \$130 million of contingency build. So we're in execution at this point.

Peter B. Oleksiak

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

A

And so it all ties around the nature or the one-time nature, and how much is sustainable.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Right, right.

Peter B. Oleksiak

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

A

Right. Right now where most of these or majority of these are going to be one-time in nature. We know we got the bridge between rate cases and we plan on filing another case in the summer. So, and with a 10-month process we know we'll get [ph] shrewd (36:46) up on sales then. Not to say that as we do these is there are new efficiencies and productivity that make it more sustainable and we definitely would like to do that but drive more heavily on for capital investment.

Shahriar Pourreza*Analyst, Guggenheim Securities LLC*

Q

Terrific. And then just lastly on sort of the equity, I mean you obviously mentioned in the slides you're at the low end of guidance in 2020. How do we sort of think about equity needs in 2021? Does that increase the equity needs in 2021? The reason why I say it is that there was obviously a little bit of credit rating pressure in recent months with DTE and I think agencies are somewhat not comfortable with the level of the midstream exposure. What do you sort of need to do to offset the concerns there? Do you need more equity down the line? So how do we sort of think about the equity guide beyond 2020?

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

A

Yeah. Shahr, [indiscernible] (37:33) this is Peter again. So first on the rating agencies, we had a recent action by Fitch which was anticipated. So we have a strong investment credit rating across all the agencies now. They're all at the same level with cushion with them all.

Our plan is not actually to use that cushion. So we really want to keep a strong balance sheet as we move into these more uncertain times. And so we are driving to the low end of the target range and we have a \$100 million to \$300 million range here in 2020 and that's not going to be deferring equity into next year. It's really going to be based on the strength of cash and the balance sheet cut for this year and we do have some plans. I mean, we talked about the earnings, continuously we're building. We're also looking at cash as well because we would like to where we can minimize the equity for this year.

Shahriar Pourreza*Analyst, Guggenheim Securities LLC*

Q

Terrific. Peter, congrats on today's too, I know it's not a goodbye, so I'll just tell you I'll see you later. Thanks again, guys. I appreciate it. That's all. Yeah.

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

A

Thank you.

Operator: Michael Weinstein with Credit Suisse. Your line is open.

Michael Weinstein*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning.

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

A

Good morning.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Good morning.

A

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Hey. Hey, just to be clear. I just want to make sure the guidance does hold up under the slow start scenario? I want to be clear on that. Also, what is the monthly degradation rates for the summer under the slow start scenario as so many things drag on?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

So, I guess the answer to the first question, Michael, is yes the guidance does hold up under the slow start scenario. We've modeled that way and we've also modeled our contingency build that way. So we're comfortable that the plan that we have today can deliver under the May start and the slow start. We've given the annual impact on slide 8 from sales reductions. We really haven't – we've modeled, we've got various scenarios and a band of scenarios that gets you between the May start and slow start scenario on a monthly basis but we haven't laid that out here.

A

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

And how much of that \$120 million to \$130 million contingency that you're planning on is coming from CapEx postponement versus OpEx cuts?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

We're maintaining our capital guidance. So we basically pause some of our capital project as you can imagine due to the shelter at home order from the governor. But we're resuming our construction activity here in May and we plan to catch up on our capital investments and deliver on our capital guidance for the year.

A

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

And has the IRP, the new, the refiled IRP and also the new renewal plan that you filed, has any of that changed any of the CapEx [ph] you look at (40:23) going forward?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

It has not changed the CapEx plan going forward. As a matter of fact the IRP recently got approved and we filed our contracts associated with our renewables plan. We expect approvals of that in July. We feel good about that as well. And that's both a self-build and some amount of PPAs.

A

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

And just to confirm, it sounds like things are moving along pretty well for Gas Storage and Pipeline business. I just want to confirm that in the Haynesville especially, that the forward curve of gas which is building is supportive of growth users, your producer customers, [indiscernible] (41:08) growth plans are supported by the forward curves?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Yeah, the positive for the Pipeline and Storage business in the first quarter is it's delivered better than plan for the first quarter and so that's been a positive start to the year. And if you look at slide 29, and talk about the price complex in the Gas business, you'll see that the reason that our price complex is being influenced in a positive way is that the associated gas at the front end of that dispatch curve is expected to decline in terms of production volumes and what that does is it starts to – on the cost curve you start to [ph] slide at your right (41:48) in order just to replace a supply that's falling today. And so the pricing that's in the market today and what our producers are hedged at is well to the right of where our resource is dispatched. So you can see, for example, the blue is our inflow assets. And you could see there at the very front of the dry gas dispatch curve, well within the current price complex for both 2020, 2021 and 2022, so we're feeling that our resources that we ship on our pipelines are extremely well positioned in all our basins that we operate in.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

[ph] Helps to be (42:29) dry gas basins.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Yes. It also helps that we have high quality resources, yes.

Peter B. Oleksiak

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

Yeah.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Okay. All right. Thank you very much.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Thanks, Michael.

Operator: Julien Dumoulin-Smith with BoA. Your line is open.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Hey, good morning, team. And, Peter, congratulations.

Peter B. Oleksiak

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

Good morning.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Good morning, Julien. Thanks.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Hey, good morning. Absolutely. So, okay, let's do a little clean up by following some of these questions here. So, if I can go back to the ongoing nature of the cost reductions that you just alluded to or talking about [indiscernible] (43:07), how do you think about balancing the ongoing elements of this cost reduction relative to rate increases and how that frames your future CapEx spending given what that implies for rate increases. So I know that applies more holistically to the industry but since we're specifically talking about cost reduction today and what the shape of that looks like, can you speak a little bit – and especially in the context of it seems like you are very specifically confident about being able to catch up on your contemplated CapEx in 2020 despite some of the hurdles here which is impressive. So just I want to talk about the other side about that on recovery, et cetera?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Sure. As it relates to cost, Julien, I think you know that we've got a long track record of managing our costs to our customers and also managing rates and bills at rates less than inflation over a great number of years. And we will continue with that. This event has presented a unique challenge where we have to pursue some one-time items to reduce costs. But like Peter said, we will have the opportunity perhaps as we go forward here to persist with some of those cost reductions. And if that happens what that will do is it will provide more headroom in our investment plans. I think we've mentioned before that we've got a few billion dollars of capital sitting on the sidelines looking for affordability headroom. Well, I think this event may provide the opportunity to bring some of that in as we go forward. But the first thing we need to do is secure this year and then as we look forward we'll look to see if some of these cost reductions provide an opportunity for us.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Okay. Fair enough. And then turning to the other side of the business here on the [ph] non-rent (45:06) side, can you talk to what the implications of higher gas prices are and I know you've already done that so – or thus far in the conversation. Can you speak specifically to incremental opportunities, right? So I suppose the perception is that this is largely de-risking to counter-parties, et cetera, and how does this potentially accrue to your trajectory in that business altogether when you think about it?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Well, we're seeing that most of our growth, Julien, in the Pipeline business has been contracted over the next three years. But we're seeing a lot of action [ph] and hinged over (45:43) small projects that are starting to emerge. The fact that we will have a pipeline that can move [ph] snipping (45:49) volumes from North to South and could be double in capacity very economically, that's also starting to show signs of promise in terms of opportunity. So, too early to tell since we're new in that basin. But I think we're starting to see some really positive movement and potential growth there and they will be small projects with very high IRRs, so very accretive. We've also seen movement on NEXUS, we're seeing some very positive movement there with customers showing interest and also valuing up, the value of that pipeline valuing up in the short term markets and even the medium term markets. And even on our Bluestone asset which is mature, we're starting to see some activity there as well. So I think it's positive that the price complex is moving in the right direction and I think it will help to propel some of our developments.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Thank you very much. Take care.

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Thanks, Julien. Thank you.

A

Operator: Stephen Byrd with Morgan Stanley. Your line is open. Stephen Byrd, your line is open. Your next question comes from the line of Jonathan Arnold with Vertical Research. Your line is open.

Jonathan Arnold

Analyst, Vertical Research Partners

Hi. Good morning, guys.

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Hey, good morning, Jonathan.

A

Peter B. Oleksiak

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

Good morning, Jonathan.

A

Jonathan Arnold

Analyst, Vertical Research Partners

Thank you for the detail and, Peter, congratulations from me.

Q

Peter B. Oleksiak

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

Excellent, thanks.

A

Jonathan Arnold

Analyst, Vertical Research Partners

Just a quick question. You mentioned both [ph] GS&P (47:22) and P&I were ahead of plan in the first quarter. Can you be a bit more specific on what drove that variability versus plan?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well, the [ph] pipeline of Storage was ahead (47:37) of plan primarily due to favorable volumes in all our platforms. Our platforms as well as our gathering pipelines and so we're seeing favorably there in that regard. And P&I was primarily driven by the new projects that we brought online, showing some favorability.

A

Jonathan Arnold

Analyst, Vertical Research Partners

And given the nature of those areas, I'm just curious just what's the source of variability there?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

I would say that the pipeline favorability unless there is other events that undo that for the balance of the year we plan to hold on to that favorability for the balance of the year, it creates contingency in the plan. We're not completely counting on that, Jonathan. So we're building contingency in and around both the Pipeline business and the P&I business in order to have a conservative outcome for the balance of the year. So we've got approximately about \$30 million of favorability in the first quarter for our non-utilities and we're not going to count on all of that for the balance of the year. And build some contingency around that \$30 million.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Okay. Good. Thank you. And then just to the assumption you have around residential sales, well, actually before that are you making any – what are you assuming around natural gas and how significant is that to your contingency plan for the current situation or are you primarily focused on weakness in electric sales?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Well, in the pipe – you're talking about the natural gas utility, Jonathan?

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Yeah. Yeah.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Yeah. We're seeing modest impact of the natural gas utility from this COVID-19 experience primarily because most of it has happened beyond the first quarter.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Yeah.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

So we don't see much of an impact for the balance of the year. The primary pressure is coming from the electric company. [indiscernible] (49:37)

Jonathan Arnold

Analyst, Vertical Research Partners

Q

The 3% to 4% increase in annual electric sales and I think you mentioned that you're currently seeing about 10% to 11% in April.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Right.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Can you help us to bridge to how you have confidence that that number is as high for the year as a whole when you are assuming that we kind of – it will have effectively been a month or two of home and then starting to kind of move back?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Sure. We are very close to the plans that the state is developing in terms of return to work and so we have a pretty good understanding as to when office workers will return to work as well as when industrial workers will return to work. So we understand that schedule, that's being planned and obviously we've modeled scenarios around those return to work plans, both a May start scenario as we call it and a slow start. And so what we do is we migrate our residential sales from 10% to 11% higher than planned here in April and part of May and then we slowly start to drift that down back towards normal by the end of the year with the milestones embedded in the plan that we are aware of from the state.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Okay. So there's an element of the summer and air conditioning seasonal [indiscernible] (51:06).

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Yeah. The expectation is that the office workers return to work in our offices later in the summer. They won't be first out of the gate because on a risk basis they're viewed as very high risk because they operate in very close quarters and highly congested environments. So the state and the medical experts in the state believe that the office workers will be the last to return to their office complexes.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Great. Thank you for the extra color.

Operator: Andrew Weisel with Scotia. Your line is open.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Hey. Good morning, everyone.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Hey. Good morning, Andrew.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

I want to echo the congratulations to Peter on a fantastic run at DTE. Through good times and bad you kept things stable. Dave, congrats to you as well. You have big shoes to fill, but at a minimum at least the earnings call will be one minute shorter, so we don't have to hear about [indiscernible] (52:06) anymore.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Yeah. That's true.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

So, first question, I just want to clarify the \$30 million to \$50 million potential impact from Covid, does that mean \$30 million would be the May start scenario and \$50 million would be the slow start or is that just kind of the range for the May scenario?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

\$30 million is the sales impact for the May start scenario and \$50 million is the sales impact with a slower start scenario.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Okay, great. Just wanted to be clear on that. And in terms of the contingency, can you compare the \$120 million to \$130 million to what you are able to cut in 2008/2009 if you had the memory to go back that far?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well, it's similar. We targeted it back in 2008/2009 \$150 million but that was pre-tax. So this is a \$120 million to \$130 million after tax. But we're a much larger company at this point in time and have a much larger base to pursue.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Okay. Great. Then on the IRP, congrats on getting the modified version approved. Can you remind us and walk us through the modified version approved. Can you remind us and walk us through the changes you've made particularly on the self-build generation side and what would happen if the economic downturn is deeper and longer lasting, is there a risk to the plan to add a lot of generation capacity?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well, we actually have a plan on our voluntary renewables, we had planned to sign up about 600 megawatts over the next three or four years. And I'm happy to report with the most recent announcement just weeks ago from General Motors to sign up for another 250 megawatts of voluntary renewables that we are actually at 650 megawatts of sold against the target of 600 megawatts which was a three- or four-year target. So we're well ahead of plan on this and so that's quite exciting and we'll continue to market the product.

Obviously our marketing efforts and sales effort have slowed a bit here but we plan to resume in the summer. A great amount of interest in this product from both our industrial customers as well as our commercial and residential customers. In terms of what we filed for self-build, we filed [ph] 225 (54:16) megawatts of self-build which is a wind park and also we signed some PPAs for solar to meet our 15% requirement. That's our RPS requirement for here in Michigan of 15% by 2021, that's – we will fill that requirement. The 650 megawatts of voluntary, we have 400 megawatts of that approved last year. And so this summer we will be pursuing a 250 megawatt filing with a lot of self-build and some PPAs.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Very good. And then just the last...

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Which supports – sorry, it supports our...

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

No, go ahead.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

...capital spend long-term, yeah. All of that supports our capital plan long-term.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Okay. Great. Then lastly just to be abundantly clear, can you describe do you have any appetite for potential additional midstream M&A given the turmoil in that space?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

We've essentially – what I would say, filled the order book for acquisitions in the pipeline space. We are in the process now really digesting what we own. We acquired the [indiscernible] (55:30) asset. We've got the Link asset and we have NEXUS. Those are all sort of new platforms, if you will, and we're going to pursue highly accretive and high return expansions and organic developments in and around those platforms. That's our plan right now.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Sounds good. Thank you.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Yeah. Thanks, Andrew.

Operator: Steve Fleishman with Wolfe Research. Your line is open.

Steve Fleishman

Analyst, Wolfe Research LLC

Hey, good morning. Thank you.

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Good morning, Steve.

A

Peter B. Oleksiak

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

Good morning, Steve.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Hey, Jerry. And congrats, Peter, again. Best to you.

Q

Peter B. Oleksiak

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

Thanks.

A

Steve Fleishman

Analyst, Wolfe Research LLC

The April data that you provided, do you have just like overall sales when you net for the company for [indiscernible] (56:22)?

Q

Peter B. Oleksiak

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

Yeah. The total – this is Peter – yeah, the total load was down 16% to 18%. [indiscernible] (56:28)

A

Steve Fleishman

Analyst, Wolfe Research LLC

Down 16% to 18%.

Q

Peter B. Oleksiak

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

Yeah, yeah.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. And then just the – could you give any update on what you're seeing in terms of customer payments and any non-payments and then maybe tie into that this uncollectibles deferral that the Commission proposed and any kind of cost-related component to that too?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Sure.

A

Steve Fleishman

Analyst, Wolfe Research LLC

So, a few questions in there. Yeah.

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Thanks, Steve, for those questions. So I'll start with what we've done for our customers. We've suspended shutdowns for our low-income customers and our seniors, our most vulnerable customer till the first week of June. And that's something that we work very closely with the Michigan Public Service Commission on. So, total alignment in that regard. In terms of arrears, Steve, we watch that daily every morning in our financial call. One of the first things we look at is arrears and it has started to move, but not in a fundamental way, but we're planning that it may as part of our contingency build, but the positive here is that the Commission issued an accounting order that allows us to defer those expenses and we have filed for cash recovery of those expected expenses in our gas case which is underway right now and we will look to file for recovery of those gas expenses in the electric case that we filed later this summer. So we have an accounting deferral and then followed by a cash recovery in future cases.

A

Peter B. Oleksiak

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

Yeah, and this is Peter...

A

Steve Fleishman

Analyst, Wolfe Research LLC

Okay.

Q

Peter B. Oleksiak

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

...just [indiscernible] (58:10) add on that.

A

Steve Fleishman

Analyst, Wolfe Research LLC

And that's why you're assuming...

Q

Peter B. Oleksiak

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

Yeah.

A

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

That's correct. [indiscernible] (58:15)

A

Steve Fleishman

Analyst, Wolfe Research LLC

...that's embedded in your plan?

Q

Peter B. Oleksiak

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

That's embedded and it's very constructive, back in 2008 and 2009 we did have a [indiscernible] (58:21) in the gas but not the electric. So it really – the Commission, now we can really work with them around our disconnect strategy with these customers. So, it was a very constructive vertical and it really does cap the amount of exposure we have on uncollectibles.

A

Steve Fleishman

Analyst, Wolfe Research LLC

And then I think there was some talk in the CMS call yesterday about there could be a cost offset to the deferral though, could you talk about that at all, is that something you need to monitor?

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Sure.

A

Peter B. Oleksiak

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

Yeah, the...

A

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

The Commission indicated that they will consider extraordinary costs related to this pandemic, things like costs to sequester employees in hotels, costs for home reserve workforce and also costs for incremental PPE. So they have asked us to make a filing to take all of those costs into consideration. So that will be a case for future, something that we'll have to look for in the future.

A

Peter B. Oleksiak

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

Yes, Steve, it's just, that's...

A

Steve Fleishman

Analyst, Wolfe Research LLC

Okay.

Q

Peter B. Oleksiak

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

...separate from the uncollectible. The uncollectible kind of standalone, [indiscernible] (59:29) comments now around a potential deferment of real direct Covid-related costs.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Okay. Last question is just – it's hard to compare exactly but it does seem like your sales sensitivity is a little bit less than CMS sales sensitivity. Do you have any way to kind of maybe better explain that? Do you have higher fixed charges maybe or some other component there?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Peter, any thoughts on that?

Peter B. Oleksiak

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

A

Yeah. One of the things that's embedded in here and I know we've got some questions on the residential, the residential increase we're saying is 3% to 4%. Obviously less than the commercial, industrial down. But 1% change in residential is about \$15 million positive for us and it's about 2.5 times commercial and 15 times industrial.

So I think we have done a really detailed job of forecasting out for the whole year the residential and we did see residential up even in the first quarter 2% really related to the March shelter in place. So I think that's some of the difference and I think that's also a difference back in 2008 and 2009. We had a housing crisis back then, we did see residential decline. So it really is offsetting and the overall load reduction even though we're down 6% to 8% the residential deal would happen. I think that's some of that exposure down.

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Great. Okay. Thanks very much.

Operator: [ph] Bryan Levine (01:01:13) with Citi. Your line is open.

Q

Good morning.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Good morning.

Peter B. Oleksiak

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

A

Good morning.

Q

What are you seeing or what's your EBITDA and CapEx for the midstream business this quarter and where did you see the favorable [indiscernible] (01:01:24) in terms of which asset?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well. I'll start with where we saw the variability, we saw it across all platforms. We saw positive movement as I mentioned in our Haynesville platform as well as our NEXUS platform and [indiscernible] (01:01:41) platform which go together as well as our Bluestone assets and Millennium assets, so we – again, it was across all platforms. In terms of EBITDA for the first quarter Peter said something that... yes, [indiscernible] (01:01:52)?

David Ruud

Senior VP-Corporate Strategy & Development, DTE Energy Co.

Yeah, we haven't broken that out yet. As you know we recently introduced this EBITDA overall for the year, but it's proportional to the earnings, sorry, so we did see some EBITDA increase as well along with those earnings or maybe something in the future [indiscernible] (01:02:09).

Okay. Great. Okay. Great. We appreciate that. And then recognizing your Haynesville contract structure, are you and your customers considering a mutually beneficial delay to the expansion that's expected for next quarter?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

We are not, the construction in the pipeline is progressing on plan and actually our customers are very excited to start shipping gas on that pipeline, so none of those conversations are happening.

Okay. And then just a follow up on the bad debt expense, is there any data points that you could point us to, to quantify the recent uptick that you noticed?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

It's modest, the uptick, so we're watching it daily, right, we have the instruments to be able to watch it daily and I would not say that it is pressuring UCX at the moment, but then again we're not early in the aging bucket, as you know, the more the accounts age the higher the reserve. So we're early [ph] innings (01:03:11). We do expect some pressure there, but we have an accounting order that defers that expense and that gives us the opportunity to recover in future rate cases.

Okay. And then, Jerry, you mentioned that you can't just – you're not disclosing the quarter EBITDA. Are you able to share the CapEx spend for the quarter?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Peter?

A

Peter B. Oleksiak

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

Yes. We have not provided that and that may be something, I've got Barb on the line. We can see if [indiscernible] (01:03:43) public documents that potentially can constitute the EBITDA number.

A

Q

Thanks. Thank you.

Barbara Tuckfield

Director, Investor Relations, DTE Energy Co.

We did provide the non-utility CapEx of \$338 million for the quarter.

A

Peter B. Oleksiak

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

Yeah. That's what we did. Yeah.

A

Q

Okay. Thank you.

Peter B. Oleksiak

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

Thanks.

A

Operator: Sophie Karp with KeyBanc. Your line is open.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Hey, guys. Thanks for squeezing me in. A couple of questions here. Only...

Q

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Good morning.

A

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Only kind of – good morning, yeah. On the customer non-payments potentially right and it's been deferred from an accounting order and it looks like you can recover that cash quite quickly because of new cadence of rate cases,

Q

but just give us something that we shouldn't be concerned as far as balance sheet pressures as a result of that or is that something that you're looking into?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Well, we've modeled the cash that comes along with high arrears and bad debt expense and our corresponding actions to respond to that pressure involve a lot of cash actions. So we believe that the asset will come through our cash initiatives and earnings initiatives. Most of our earnings initiatives are cash initiatives as well. So, that \$120 million that we're targeting will offset any pressure that we may see from arrears.

Peter B. Oleksiak

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

A

Yeah, this is Peter. And I guess, Sophie, just to add to that we are seeing in this package some cash upside for us, the tax AMT is going to be accelerated. If you recall back in 2018, AMT was eliminated with a three-year [indiscernible] (01:05:28) and it got accelerated to two years. That's just one example, about \$75 million of capability and so we're going to continue to look for opportunities on the cash side as well and we are modeling both earnings and cash for non-collectibles separate – or both will be able to offset by cash and bank.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Also savings that you realized this year, that timing that you are talking about. How much of that could be going to stick in the run rate going forward as opposed to just being a one-time going lean and then going back to some baseline?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Well, that's a great question because we had the same discussion in 2008 and 2009 when we started a similar initiative. What started out as one-time items over time we were able to convert some portion of that into permanent tax reductions which of course creates a benefit for our customers. And with our aging infrastructure, it gives us headroom to invest without creating affordability pressure for our customers. So I view it as a positive over time, but it's hard to quantify right now because we are early than some of these one-time items. But our goal will be to try and use this opportunity to create headroom in the future.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. And the last one for me maybe given the topography of your gas network, right, in the Marcellus, is there any incentive at all for some of your offtakers to potentially reject their contracts with you guys in favor of maybe other rooms to market if they would become financially distressed or proactively seeking some kind of [ph] doing (01:07:07).

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Well, we've looked at that very closely especially when the gas complex was heavily pressured from a price perspective. What we look at is obviously a lot of our customers are captive to our system because of the infrastructure. The infrastructure is hard to reproduce, to deliver, to source and deliver the gas to locations that are being sourced and delivered too, so that's one. Two, we also look at the competitive nature of our contracts in

terms of pricing and we're very competitive with all our contracts. Three; our contract structure is very strong and has strong credit provisions in it as well.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

All right. Thank you very much. Appreciate the color.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

All right. Next one, please.

Operator: David Fishman with Goldman Sachs, your line is open.

David Fishman

Analyst, Goldman Sachs & Co. LLC

All right. Good morning. Peter, David, congratulations.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Good morning.

Peter B. Oleksiak

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

Hey, good morning.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Just going back to the IRP and specifically kind of the RFP results you guys laid out there. I know you touched on this a little bit when you were talking about the wind that you're going to self-build and own in the solar which is going to add a little more PPAs. I was hoping you can maybe walk us through kind of how you see DTE's competitive position compared to other bidders when it comes to wind versus solar?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Sure. We were in this most recent filing which was a compliance filing to meet our renewable standard in 2021, we were very competitive with our wind resources. And so that we've had that project well developed. There was a self-build and we actually developed it from scratch so that was a very competitive project. We also layered in some solar PPAs that were very competitive. So basically what we did is what was right for our customers. We offered the most competitive product, both a combination of self-build and solar. In the future we will likely be focused on solar and at this point we feel really good that we can be competitive with self-build but we'll also introduce PPAs where it's beneficial to our customers. We will always do what's right for our customers in the long term. And so far that's supporting our capital plans in the space and overall.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Okay, that makes sense. And turning over to the voluntary commitments, as you mentioned earlier, you've already kind of sourced the 600 or so megawatts by the early 2020s which is – what you've been showing in your slide deck. I think when I went through the IRP I saw through 2024 it was more of a 790 megawatt kind of expectation number. Would that be upside to that capital plan you kind of outlined for us or is the – closer to 800 megawatt number for the voluntary segment what you guys are embedding or is that upside in the capital budget?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

I believe there could be upside in this space simply because when you had planned to sell 600 megawatts in three years and we're at 650 megawatts sold now in the first year. So we seem to be selling the product faster than we expected. Now whether or not that continues remains to be seen but there's tremendous interest in this product even at a residential level, we've sold 10,000 contracts already for this product. And we're also targeting smaller commercial and industrial customers who may have an interest in the space but certainly I would say there's the winds in our sails on this one, there's a great desire for this type of product in our communities.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

And do you have more flexibility on that to pretty much – is it guaranteed it's more self-build on the voluntary side or do you go through a similar RFP process that was outlined?

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

We're going to go through a similar RFP process. And obviously we want to compete and build as much as we can but there are times when other developers can offer as competitive of a product as we can offer and we'll take those as well.

But we certainly target to build as much of it as we can but then we have to be realistic and know that there are others that perhaps have small advantages that we'd like to take advantage of for our customers.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

But we think there's plenty of build out here that will support our capital plans.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thank you. Appreciate you taking the question.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

A

Thanks, David.

Operator: We have time for one final question. Anthony Crowdell with Mizuho. Your line is open.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Good morning, guys.

Q

Peter B. Oleksiak

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

Hey, Anthony.

A

A – [0090NP-E Jerry Norcia]>: Good morning, Anthony.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Peter, congratulations. It's probably been...

Q

Peter B. Oleksiak

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

Thanks.

A

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

...a while since on a first quarter call that Tigers weren't eliminated from postseason play.

Q

Peter B. Oleksiak

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

Yeah. Yes, we have no losses this year.

A

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

No losses this year. Just that most of my questions have been answered. If I could just jump to I guess your GSP assets especially on in the Eastern region, there have been multiple delays on getting other pipes built over in the East Coast. Have you seen any increase in customers looking to subscribe to any of your assets on the East Coast? And if you want to opine, do you think those assets get built anymore? I guess any more assets get built on the East Coast.

Q

A – [0090NP-E Jerry Norcia]>: Well, let me start with our assets. Anthony, we are seeing more activity on all our assets. We've actually seen some nice favorable movement on pricing and NEXUS as well as interest levels but primarily the interest level on NEXUS has been demand pull. Initially the pipe was built with a combination of supply push and demand pull, producers putting gas into the pipe under long-term contracts and then of course LDCs pulling it off the other end of their long-term contracts.

We're starting to see a few more LDCs show up and signing some contracts as well as some power plants so along the route and industrial customers that we've connected at the NEXUS, so all of that has been quite positive.

In terms of the pipelines going to East Coast, it really remains to be seen. It's been a long time and then getting our approvals and I believe that some of that infrastructure would get built, I'm not sure that all of it will be built,

but I think that is all positive for us in terms of how that may play out over time whether it's just delay or perhaps some of the infrastructure doesn't get built.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

Thanks for taking my question and I hope everybody stays healthy.

A – [0090NP-E Jerry Norcia]>: Thank you.

Peter B. Oleksiak

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

A

Thank you.

A – [0090NP-E Jerry Norcia]>: Same to you, Anthony.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

Yeah.

Operator: This ends our Q&A session. I would now like to turn the call back over.

Gerardo Norcia

President, Chief Executive Officer & Director, DTE Energy Co.

Well, thank you, Jack, and thank you everyone for joining us today. Again, I hope that everyone and their loved ones are healthy and safe. We are living in challenging times and I believe DTE has the people and the plans to deliver this year and also to deliver our long-term plans. So with that stay healthy and stay safe.

Operator: This concludes the DTE Energy First Quarter 2020 Earnings Conference Call. We thank you for your participation. You may now disconnect.

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