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DTE Energy Co. (DTE)

Q3 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 Third Quarter 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]

I would now like to hand 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, who will discuss the transaction we announced this morning that transitions DTE into a predominantly pure-play utility. We also have David Slater, President and COO of DTE Midstream, and President and CEO elect of the new Midstream company, who will take you through the benefits of an independent midstream company. Bob Skaggs, a member of our Board of Directors and Executive Chairman elect of the new midstream company, will say a few words on the transaction; and finally, Dave Ruud, Senior Vice President and CFO, will provide an update on the quarter, our increased 2020 earnings guidance, and our 2021 early outlook.

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. I hope everyone is staying healthy and safe. So, I'll start on slide four. This morning, DTE announced that our board of directors has authorized management to pursue a plan for the spin-off of Midstream from DTE Energy. On this call, we'll discuss the spin-off and demonstrate how it will unlock significant shareholder value by positioning DTE as a predominantly pure-play utility with visible and superior growth and creating an independent well-positioned midstream company with excellent growth potential.

Now, we will provide you an update on our 2020 results, which continue to be very strong, giving us confidence to increase operating EPS guidance for the year. This positions us to exceed original guidance for the 12th year in a row. I want to thank all the leaders and our 10,000 employees at DTE for creating this tremendous success in a year of great turmoil and uncertainty.

We are firing on all cylinders, keeping our people safe and delivering for our customers, communities and investors. It is truly remarkable and certainly a reflection of the grit and determination of the great people of DTE, a big thank you. We're also providing an early outlook for 2021 and announcing that our board approved a 7% dividend increase for 2021, continuing our history of providing strong dividend growth.

Now, onto slide 6 for an overview of the spin transaction. This decision to separate the two companies follows a thorough review with our board to identify opportunities to optimize our portfolio and maximize shareholder value. And in the end, after the evaluation of various alternatives, we determined that our strategic spin of the Midstream business was the best way to create value.

We recognize that this decision comes not long after our significant acquisition of assets in the Haynesville Basin. Our decision to spin Midstream is a result of a series of discussions with our board that began in the summer of 2019, prior to the acquisition, when we started talking about a portfolio pivot to a predominantly pure-play regulated utility. Through 2019, while business mix discussions were still ongoing, we continued to pursue an aggressive value creation agenda for Midstream which yielded the Haynesville acquisition. This was a great acquisition of both forward growth and value.

Because this acquisition and the balance of the Midstream portfolio continues to perform exceedingly well, provide better than expected growth opportunities, and has scale to thrive on its own, it crystallized our path to pivot to a high growth, pure-play utility with the spin of a well-run midstream company.

We believe this strategy will unlock significant value for our shareholders. The spin is expected to unlock the full potential of our premier regulated utilities and premium natural gas midstream assets, align DTE's business mix with investor preferences and overall market trends, and create two entities each with experienced leadership and proven track records. We expect the entities to pay combined dividends higher than the current dividend, with an 8% to 10% post-spin increase from 2021 to 2022 versus 6% we had planned pre-spin.

For well over a decade, our Midstream business has created significant growth through greenfield development and strategic acquisitions, and has become an industry leader with solid cash flows and tremendous opportunities for continued growth. We believe this separation positions DTE Midstream with enhanced flexibility and provides shareholders an opportunity for investment in a high-quality midstream company, with assets strategically located in premium basins and connected to major demand markets.

As most of you know, my background includes a substantial amount of time in the gas industry including my involvement in the development of our Midstream business. The team and I have dedicated a significant amount of time and energy creating a Midstream business at DTE that is recognized as one of the best in the country. So you can imagine how important this decision is to our team and me. After careful consideration and review with our board, I am confident that the separation is the best way to allow the Midstream business and its team to achieve their full potential and to enhance overall value for our shareholders.

As I said, this positions DTE into a nearly fully regulated utility, with 90% of our operating earnings and an even higher percentage of future capital investments going into our two premium utilities. Our five-year plan will hold this 90%, 10% mix. About 10% of DTE's operating earnings will be from our remaining nine utility businesses. The separation of DTE and the Midstream company is truly beneficial for both entities, positioning them well for the future.

Turning to slide 7, I'll provide details on the structure of the transaction. DTE and the new Midstream company will have distinct corporate structures. DTE shareholders will retain their shares of DTE stock and receive pro rata shares of the new Midstream company. We expect to complete the spin by mid-year 2021 subject to final board approval, the Form 10 registration statement being declared effective by the SEC, and other regulatory approvals.

I will remain the CEO of DTE Energy, with Gerry Anderson continuing as Executive Chairman and Ruth Shaw as lead independent board director. David Slater, current President and COO of GSP is the CEO-elect of the new Midstream company. Most of you are familiar with David, who is well-respected in the industry. Bob Skaggs is the Executive Chairman-elect of the new Midstream company and will continue to serve on DTE's board.

As many of you know, Bob served as Chairman and CEO of NiSource, where he executed the company's successful spin of the Columbia Pipeline Group and went on to become its CEO. David and Bob each have 30 years' experience in the energy industry. The Midstream company is extremely fortunate to have these two seasoned leaders along with a really strong team to support them.

Let's move on and discuss the strong growth profile of DTE Energy on slide 9. This transaction positions DTE in a predominantly pure-play electric and gas utility. About 90% of DTE will be regulated by the Michigan Public Service Commission. We will invest significant capital over the next five years to support utility growth. We are substantially growing our utility rate base with a five-year capital investment plan of \$17 billion, an increase of \$2 billion over our previous five-year plan. This capital plan is strategically aligned with our aggressive ESG targets.

DTE's EPS growth rate has been among the best in the industry over the past decade and is maintaining its long-term 5% to 7% growth target. DTE Electric, we anticipate long-term operating earnings growth of 7% to 8% and above 9% at DTE Gas. Our post-separation profile will better align DTE with investors' preferences for high performing regulated utilities. We will continue our strong record of providing clean, safe, reliable and affordable energy to our customers and being a force for growth in the communities where we live and serve.

DTE will continue to offer competitive dividends our investors expect. We have paid a dividend for more than 100 consecutive years and have increased our dividend each year since 2010. We will target dividend growth and a payout ratio that remains consistent with our pure-play utility peers. All in all, this transaction offers greater appeal to investor focus on the strategic and financial characteristics of a pure-play utility.

Let's move on to slide 10. The separation will highlight the strengths of our core electric and gas utility businesses. Michigan has one of the best regulatory environments in the nation. Continue to work very closely with the Michigan Public Service Commission to support the people of Michigan, particularly this year during the pandemic. DTE continues to have a distinctive continuous improvement culture enabling us to continue our superior track record of cost management.

We also have a strong commitment to service excellence. DTE Energy ranks in the top 10 of energy companies with energy efficiency programs. And I'm proud to say both utilities are in the top quartile for residential customer satisfaction, with DTE Gas recently earning the top ranking in the Midwest by J.D. Power.

Moving on to the next slide, I'll discuss our capital plan beginning with DTE Electric. We expect to invest about \$14 billion in the electric company over the next five years. This is 17% higher than our previous plan. About \$2 billion of the total electric investment will be in renewables. That will support our plan to reduce 80% of our carbon emissions by 2040 and be net zero by 2050.

We are also focusing our investment on modernizing an aging distribution system with significant investments in [ph] hardening (00:11:49), automation and technology in our distribution business. We are building a flawless grid of the future for our customers. Our capital plan supports a robust near-term outlook for DTE Electric and a 7% to 8% long-term operating earnings growth rate.

On the next slide I will discuss capital investment opportunities at DTE Gas. Over the next five years DTE Gas plans to invest over \$3 billion to upgrade and replace aging infrastructure, [ph] with (00:12:20) potential upside to the five-year plan. Along with our pipeline integrity and main replacement investment, we are investing in innovative technology and products that will reduce methane emissions and reduce the carbon footprint of our gas company. Overall, our capital plan supports a strong near-term outlook for DTE Gas and a 9% long-term operating earnings growth rate.

On the next slide, I'll discuss our plans to achieve net zero greenhouse gas emissions to further strengthen our ESG stewardship. As I mentioned, at DTE Electric we are committed to achieving net zero carbon emissions by 2050 with a 50% reduction by 2030. To meet these targets, we plan to double our renewable energy by 2024 and quadruple it by 2040.

We're also progressing on our volunteer renewables program. This program enables customers to invest in renewable energy and drive Michigan to a cleaner energy future. We have more than 17,000 business and residential customers enrolled, with large industrial customers including GM, Ford and the University of Michigan. We have one of the largest voluntary renewable programs in the country, with 750 megawatts of demand commitments from our customers.

DTE Gas announced its unique and comprehensive plan to achieve net zero greenhouse gas emissions by 2050. This plan includes working with our suppliers and customers to enable further reductions across the value chain. So as you can see, our strong utility investment profile positions DTE for continued growth and a strong environmental leadership role.

Now I'll turn it over to David Slater to discuss the new and exciting opportunity with the Midstream company. David, over to you.

David Slater

President & COO-DTE Midstream, DTE Energy Co.

Thanks, Jerry, and good morning, everyone. I know I've met most of you over the past few years and we've had many discussions on our Midstream business. Let me just say that I'm excited about the opportunity this transaction provides. We have achieved solid growth for over a decade and establishing our business as an independent midstream company will really benefit shareholders by unlocking significant value.

We will also continue our commitment to provide excellent service to our customers, develop growth opportunities and reaffirm our strong relationships with our partners. As you know, we have been expanding the Midstream business through greenfield projects and strategic acquisitions to become the premier company we are today. This combination of success has enabled the creation of an independent gas focused midstream company in the most prolific natural gas basins connected to key demand centers.

The Midstream company has an experienced leadership team that will continue to focus on organic growth and value creation from our well-positioned platforms. We have a strong long-term contracted asset portfolio with a diverse customer base including electric and gas utilities, power generators, industrials, national marketers and producers. This portfolio generates significant cash flow and is well-positioned to create value and growth for our shareholders.

The new Midstream company will enable better investor alignment and offer the only independent mid-cap gas focused C Corp investment in the Marcellus, Utica and Haynesville basins. We will have a strong capital structure and attractive dividend policy associated with high-quality midstream companies. With an initial balance sheet

target of 4 times debt to EBITDA and 2 times dividend coverage ratio, our balance sheet will support the ability to make value accretive investments and pay a competitive dividend.

Now let's turn to slide 16 and talk about Midstream's platforms. As many of you know the Midstream business is comprised of three platforms; regulated pipelines, regulated storage, and gathering. Our footprint is extensive and has been developed through highly accretive organic growth and strategic acquisitions. Also, our assets connect the most economic basins with key demand centers in the US. Along with our footprint, the business is underpinned by the strength of our contracts and our counterparties, which I'll go over in more detail in the next few slides.

Future growth is driven by platforms in the early development phase which include Blue Union, LEAP, NEXUS, Link and Generation Pipeline. Additional opportunities include economic compression expansions of pipeline systems, additional market laterals and continued gathering build outs. Our other platforms like Bluestone, Millennium, Vector and Gas Storage are in a more advanced development phase but still provide a stable and high-quality stream of cash flows. So Midstream's platforms have positioned us nicely going forward to deploy organic development capital and pay a competitive and growing dividend, together adding value for shareholders focused on gas midstream businesses.

Now let's turn to slide 17 and discuss Midstream's track record. The Midstream business has consistently achieved strong financial results, delivering 18% average annual operating earnings growth since 2008 and 20% annual growth in adjusted EBITDA over that same time period. The business has contributed significant cash flow, over \$3 billion since 2008. Midstream is producing strong adjusted EBITDA in 2020, which is expected to be about \$700 million. You can see that these are a unique set of assets for investors, who are looking for superior value creation from the Midstream company.

Now, let's move to slide 18. As we have highlighted, Midstream's assets are located in the most attractive dry gas basins; Marcellus, Utica and the Haynesville and are connected to key demand centers, which provide a great opportunity to continue DTE's history of success. Midstream's counterparties continue to perform according to the plans they have shared with us earlier in the year.

Our pipeline and storage portfolios are well contracted, on average for 10 years. Our major producers are in solid positions, hedged over 70% in 2021 at \$2.70, connected to premium markets, and have minimal near-term maturities. Over 90% of our revenue is from demand-based contracts, MVCs and flowing gas.

With the position of our assets and the strength of our counterparties and contracts, the company has highly visible cash flows and a solid long-term growth outlook. The creation of an independent midstream company provides the opportunity to continue our record of success and create value for our shareholders.

Before I turn it over to Dave Ruud, who will discuss DTE's financial performance, Bob Skaggs would like to say a few words.

Robert C. Skaggs

Director, DTE Energy Co.

Thanks, David. I'm grateful and honored to be working with you and the team. Also, thanks to everyone for joining us today. I'm glad to reconnect with the investment community. To say the least, we are very excited about this morning's announcement. As Jerry and David mentioned, this spin creates a compelling opportunity for both DTE Energy and the new Midstream company to unlock their full potential, benefiting customers and employees of

both companies and delivering immediate and long-term value for investors. As I said I'm thrilled to be part of this new independent Midstream company and excited to partner with David Slater and his great team.

With that, I'll now turn it over to Dave Ruud who will discuss DTE's financial performance for the quarter.

David Ruud

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

Thanks, Bob, and good morning, everyone. In the third quarter, DTE delivered solid performances across all of our businesses. As you remember, at the end of the second quarter, we expected to be at the higher end of our earnings guidance at DTE Electric, GSP and Energy Trading. We've accomplished that and more, so we are now raising our 2020 operating EPS guidance midpoint from \$6.61 per share to \$7 per share. We are confident in this increase based on the strong progress we are making on our economic response plan and the solid performance we are seeing this year in our utility businesses and at our non-utilities which are continuing to perform ahead of plan.

We have made great progress at our utilities working with the Michigan Public Service Commission to continue supporting our customers. Earlier this year, DTE Electric received approval on a rate plan that would delay the effective date of our next rate case until 2022, which would keep rates steady during this challenging economic time for our customers.

Yesterday, DTE Electric also filed an innovative one-time plan with the MPSC to refund our non-weather related sales increases. This increase was a result of the unprecedented residential electricity usage patterns driven by the COVID-19 pandemic. If approved, the one-time accounting treatment will not impact customer rates and will position DTE Electric to further defer its next rate case filing and keep customer rates steady even longer. In the third quarter, we also received approval for our amended renewable energy plan and we recently filed for the approval of additional voluntary renewables.

At DTE Gas, we received MPSC approval for a rate case settlement in August. The rate increase of \$110 million supports our capital investment plan and includes an ROE of 9.9%. And as Jerry mentioned, DTE Gas ranked first in the Midwest for residential gas customer satisfaction. It's one of the few times in our recent history that we have no major regulatory outcomes in our forward year, and these regulatory successes have helped solidify our 2021 plan.

Our GSP team placed LEAP into service in the quarter ahead of schedule and under budget. With the favorability that we are experiencing this year, we're also positioning 2021 for a strong year by pulling some O&M work forward. This increases our confidence in achieving our results next year. For 2021, we're providing an operating EPS early outlook midpoint of \$7.07 per share that delivers 7% growth from the 2020 original guidance midpoint. And as we mentioned, we are increasing our 2021 dividend by 7%. This outlook is supported by strong growth at each segment which I'll explain in more detail in a few minutes.

But first, let's move to our third quarter financial results in slide 21. Overall, DTE had a great third quarter. Again, this was supported by our economic response planned savings and strong performance across our businesses. Total operating earnings for the quarter were \$504 million. This translates into \$2.61 per share for the quarter. You can find a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings, in the Appendix.

I will start the review at the top of the page with our utilities. DTE Electric earnings were \$91 million higher than 2019, primarily due to higher residential sales, the implementation of new rates and warmer weather in the

quarter. Moving on to DTE Gas, operating earnings were \$80 million higher than last year. The earnings increase was driven primarily by the infrastructure recovery mechanism and lower O&M costs.

Let's keep moving down the page to our Gas Storage & Pipelines business on the third row. Operating earnings were up \$29 million versus the third quarter of 2019, driven primarily by the first year of operation of the Blue Union system and the LEAP pipeline, which went into service on August 1. On the next row, you can see our Power & Industrial business segment operating earnings were \$2 million lower than the third quarter of 2019. This decrease is due to lower steel-related sales, partially offset by new RNG and on-site energy projects.

On the next row, you can see our operating earnings at our Energy Trading business were \$3 million lower compared to last year, mainly due to the power portfolio performance. Finally, Corporate & Other was favorable by \$20 million quarter-over-quarter, primarily due to timing of taxes. Overall, DTE earned \$2.61 per share in the third quarter of 2020, which is \$0.70 higher than the third quarter of 2019.

Now, let's move to slide 22 to review our 2020 operating earnings guidance. As we said, DTE is having a very strong 2020 so far and we are raising our operating EPS guidance midpoint from \$6.61 per share to \$7 per share. We are very proud of how our DTE team is working through the pandemic this year and how we continue to deliver for our customers. We created and very effectively executed an economic response plan, and our team has consistently achieved against that plan.

We've also had favorability from warm summer weather. And finally, our non-utilities continue to perform ahead of plan. All of these factors have led us to increase 2020 operating EPS guidance. The favorability we are seeing this year is also allowing us to pull ahead future O&M work from 2021 into 2020, which positions us well to achieve our future plans.

Let's move on to slide 23 to discuss our 2021 early outlook. Our 2021 operating EPS early outlook mid-point, \$7.07 per share, provides 7% growth from 2020 original guidance. This outlook does not reflect the strategic separation impacts and any post transaction guidance will be provided later in the process.

In 2021, we're expecting growth in each of our businesses. At DTE Electric, growth will be driven by distribution and cleaner generation investments. DTE Gas will see continued main renewal and other infrastructure improvement investments. GSP will continue growth across its pipeline and gathering platforms, and continued RNG and co-generation project development will drive growth at P&I. We anticipate a portion of our economic response planned savings will continue through 2021 in each of our business areas. Additionally, we expect DTE's equity needs to remain consistent with our previous plan, even with the spin-off of Midstream.

Now, I will wrap things up before we take your questions. With the transaction we described today, DTE becomes a predominantly pure-play utility company, with over 90% of our operating earnings coming from our two utilities. Our company will continue a solid track record of providing safe and reliable energy and excellent customer service, while also being a force for growth in the communities where we live and serve.

Michigan has one of the best regulatory environments in the nation, and we are committed to continuing to deliver for our customers, communities, and investors. Additionally, we believe today's announcement puts Midstream and its talented team in a position to grow with enhanced flexibility and provide shareholders an opportunity for investment in a premier gas focused midstream company.

The new midstream company will be building on its history of success with the leadership of an experienced and respected management team. In 2020, DTE is on track to exceed our original guidance midpoint for the 12th consecutive year, and is positioned for a strong 2021 as evidenced by our 7% dividend increase for next year.

With that, I thank you for joining us today, and we can open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question this morning comes from Shar Pourreza from Guggenheim Partners. Please go ahead.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Hey, good morning, guys.

Q

Gerardo Norcia

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

Good morning, Shar.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

So congrats, obviously, on the quarter and the news coming out of GSP today. Couple of questions here. Can you first – can you comment on sort of the forward growth expectations post the spin of 5% to 7% consolidated versus the 7% to 8% Electric, 9% for Gas, is that kind of explained by some dilution from equity issuances especially in light of the higher CapEx outlook or alternatively, there's some dissynergies in splitting the GSP segment that could put some near-term pressure? And then just the 5% to 7%, it's off the original guidance range, just – can you just remind us how you're reiterating and replacing sort of Midstream earnings, what's the key drivers there?

Q

Gerardo Norcia

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

Well, I'll start Shar and then I'll ask Dave Ruud to add but the 5% to 7% EPS growth is off our 2020 base and it's pretty consistent with our growth pattern that we've described to our investors over many years. And certainly we always end up on the high-end of that as we've seen this year and in other years. But it's driven – post-spin, it'll be driven by our capital programs with both our utilities which are quite robust and very visible. We see five-plus years of really strong investment opportunities at our two utilities. So that's fundamentally what's driving the 5% to 7% EPS growth for the company post-spin.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

[indiscernible] (00:30:25)

Q

Gerardo Norcia

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

Dave Ruud, do you want to add to that?

A

David Ruud

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

A

Hi, Jerry and hi Shar. I think that – I think you actually explained it very well. We've – the difference between what you see at the utilities with the 5% to 7% is due to some of the equity coming in. But we are very confident in the 5% to 7% growth going forward.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

(

And then is there [indiscernible] (00:30:46)

Gerardo Norcia

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

A

And Shar, just to be clear...

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Sorry. Yeah. Sorry, Jerry.

Gerardo Norcia

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

A

I was going to say Shar, in addition to that, we're not seeing any incremental equity needs as part of the spin, so it'll be equity as we had forecasted prior.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Got it. And then any dissynergies from the split?

Gerardo Norcia

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

A

Dave Ruud?

David Ruud

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

A

There will be some initial cost that the corporate – that we will have to work through but there's no long-term dissynergies after the first year or two.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Okay. Perfect. And so when we're thinking about the spin as you contemplated the 4 times debt to EBITDA sort of implies about a \$3 billion of debt attributed to GSP in the spend, how should we sort of think about post-spin leverage on the holdco, right? It seems like it could be a sizable amount of debt that remains. Are the credit

metrics going to stay intact? What sort of been the feedback with the agencies? And any sort of guidance on pro forma credit metrics for DTE NewCo that you can kind of guide to today?

Gerardo Norcia

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

Dave?

David Ruud

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

Sure. Yeah. We're committed to maintaining a strong balance sheet at DTE, and committed to maintaining our ratings. We do expect that this separation will be credit enhancing for us, and so that's going to allow some flexibility for our metrics while still maintaining our solid investment grade rating. We've had initial conversations with the agencies yesterday and those were positive. We'll be providing them more detail in the coming months. But you were right, Shar, the way it will work is that as we spin Midstream and they develop their own capital structure, that 4 times debt to EBITDA, that will require them raising debt, and the proceeds will come to DTE. Our plan at DTE will be to use those proceeds to pay down our parent debt in the same amount.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Okay. Perfect. And then just lastly for me is, given today's announcement, curious maybe Jerry to get your thoughts on sort of the remaining non-regulated businesses, really just P&I. Is there sort of any value to having that segment now that majority of the non-reg is slated for a spin? Just curious on your thoughts Jerry on the remaining mix.

Gerardo Norcia

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

Shar, the way we're doing P&I is it's actually complementary to our ESG agenda, as we invest in RNG projects and also invest on behalf of some of our industrial customers to reduce their carbon footprints with co-generation projects. So we view it as a small part of our business overall. It will be 90% utility, 10% non-utility, but complementary.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Terrific. Congrats, guys.

Gerardo Norcia

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

Thank you.

Operator: Our next question comes from Andrew Weisel from Scotiabank. Please go ahead.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Hey. Good morning, everyone. Congrats.

Gerardo Norcia

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

Good morning, Andrew. Thank you.

A

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

First question, I want to go about the long-term EPS guidance a little bit differently. So, you're continuing to guide to 5% to 7%. That's where you pointed in the past that you've consistently delivered better than that, more like 7% or 8%. Now, it seems like a lot of that upside came from Midstream. So, looking forward, should we think about an actual EPS growth rate of 6% or might there be some good old-fashioned DTE conservatism still in there that could take us more toward the higher end?

Q

Gerardo Norcia

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

Andrew, my sense is that you'll continue to see the DTE pattern of under-promising and over-delivering. So, our 5% to 7% is the target. But, of course, we target the mid, but we've always done better than that because we have [ph] some (00:34:41) contingencies built for each year. And as I look at 2021, it's looking really strong and we're also starting to work on 2022 and that's looking really good. So, I'm confident that you'll continue to see DTE's pattern than you've seen in the past.

A

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Terrific. That's great to hear. Next on dividends, you mentioned a lot of comments about pure growth – sorry, pure average growth rates and payout ratios. Can you maybe put some numbers on that? I mean, we've all got our own comp sheets, but what do you consider to be a utility pure average dividend payout ratio or growth rate?

Q

Gerardo Norcia

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

Dave Ruud, do you want to take that?

A

David Ruud

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

Sure. Yeah. We'll remain about where we are with our payout ratio, which is right around in that 60% range, which is kind of consistent with the best pure-play peers. And then on dividend growth, that's going to be consistent with our earnings growth going forward.

A

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Okay. Great. Helpful. My last question is, you've invested a ton of capital into Midstream in recent years, including the Haynesville acquisition for over \$3 billion about a year ago. My question is, how do you think about regulated utility M&A now? That hasn't really been much of your focus historically, but might you see yourselves as being potentially acquisitive in the regulated world? And if so, what kind of targets might look the most appealing to you?

Q

Gerardo Norcia

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

A

Andrew, we have a \$17 billion utility capital plan right now, which is a very large capital – organic capital program that will create tremendous value for our investors, for our utility investors. And I'll mention again that that's \$2 billion higher than our prior five-year plan. So, I – we're going to remain highly focused on our organic growth opportunities. So, we really have no thoughts or intentions at this point in time in terms of M&A.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Okay. And can you comment [ph] all about the (00:36:45) potential for a sale of the utility business, if one were to – if you're to be approached, given the new pure-play look?

Gerardo Norcia

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

We've got a great growth agenda, an organic platform for growth at our utilities and we're happy to pursue that.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Sounds good. Thank you very much and congrats again.

Gerardo Norcia

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

Thanks, Andrew.

Operator: Our next question comes from Julien Dumoulin-Smith from Bank of America. Please go ahead.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Hey, good morning, team. Thank you for the time. And once again, once more congratulations, I appreciate the opportunity. So.

Gerardo Norcia

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

Good morning, Julien.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Hey, howdy. Perhaps just to follow-up, a little bit more of the clean up on the credit side, I think a lot of folks asked you here. Just to be extra clear about this, you said, I think to quote, you're credit enhancing. Do you know what your new thoughts would be around minimum FFO debt target specifically here? You might have been indirectly asked this earlier, but I just wanted to try to come back on that because you're at 18% now. Should we think about this being closer to some of your peers, call it 15%?

Gerardo Norcia

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

Dave Ruud?

David Ruud

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

A

Yeah. We are – we're working through that and we're in discussions obviously with the agencies. We do think it is credit enhancing and so we do think we can have the opportunity to move our FFO debt down to something that's more in line with peers, but that's yet to be defined as we work through the details here.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Got it. And when do you think you'll provide an updated view? And maybe this is a leading question into the 5% to 7% as well, when do you think you'll be in a position to provide an updated view on the credit as well as how you're thinking about that baseline moving off of your current base, right? When do you think you'll roll that forward, once you close or more on a pro forma sort of [ph] 2022 basis (00:38:37)? And I ask this specifically because you obviously have the P&I segment perhaps holding back that 5% to 7%, at least given the REF step downs coming up here.

Gerardo Norcia

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

A

Dave, do you want to take that?

David Ruud

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

A

Yeah. Our plan is to roll things forward sometime in the beginning of 2021 is when we'll get some more detail on how this will all play out, but it will be before – on a pro forma level, before the spin.

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Got it. So, do you think – so that wouldn't yet include the step down on the REF for the base line right, when you think about it?

Gerardo Norcia

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

A

Well, our 2022 projections when we put those forward, and our 5% to 7% EPS growth rate, Julien, does include the step down in REF and the replacement that we've been working on at P&I. So we will – our 5% to 7% [ph] EPS... (00:39:33)

Julien Dumoulin-Smith

Analyst, BofA Securities, Inc.

Q

Sure. Absolutely. I only stress it because earlier questions had been fixated on the discrepancy between your utility and your consolidated growth, so that's why I'm fixated on when you could potentially move beyond that big item there. Okay. Excellent. Well, thank you all very much. I think I'll leave it there.

Operator: Our next question comes from Michael Weinstein from Credit Suisse. Please go ahead.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, guys. Good morning.

Gerardo Norcia

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

Good morning, Michael.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Could you just talk a little bit about why not sell the Midstream business to another buyer like Berkshire Hathaway similar to the way Dominion went about it?

Gerardo Norcia

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

Well, we examined...

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Yeah.

Gerardo Norcia

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

Go ahead, please.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Yeah. Why [indiscernible] (00:40:23)?

Gerardo Norcia

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

We examined a series of alternatives as we were looking to make this pivot to a more of a pure-play utility model. And we – when we looked at all those alternatives we found that the spin in our opinion created the greatest amount of shareholder value for our investors going forward.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Right. Are there any tax consequences? And also, is the – is a 4 times debt to EBITDA level, is that low enough to compete with a sector that's – a publicly traded midstream sector that's already kind of under stress?

Gerardo Norcia

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

Well there are no tax consequences, this is designed to be a tax free spin and certainly the debt level of the – our new midstream company will be very competitive and provide tremendous flexibility to provide a strong dividend, a strong dividend growth, as well as pursue their capital growth programs.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Right. And on that dividend issue, just to follow-up on Shar's questions, how would equity needs remain unchanged at DTE Energy after you've lost the cash flow from this business? I mean, I know you're – you said it's credit enhancing but I'm just wondering if that – is that enough to not change any equity needs going forward considering the loss of cash flow?

Gerardo Norcia

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

A

Dave Ruud, you want to take that?

David Ruud

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

A

Yeah. The piece you mentioned there, the credit enhancing does help support the additional – or the lack of additional equity that we'll need. We still do have the equity converts that come in, in 2022. But we see our plan – our equity plan being very consistent with our previous plan.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Right. And one last question, when do you think you'll file the next electric rate case? That's coming up probably early next year.

Gerardo Norcia

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

A

We are looking at first quarter next year, but we're going to remain flexible on that. We're going to try to obviously delay as much as possible, but that's our baseline right now.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. All right. Thank you very much.

Operator: Our next question comes from Angie Storzynski from Seaport Global. Please go ahead.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Q

Hi. Thank you. I have actually just a couple of questions. So first, I remember the previous EEI conferences, you guys talked about how the affordability issue sort of impedes your ability to grow utility CapEx, now you're showing us this very sizable growth on the Electric side and this potential increase on the Gas side. So, what's changed since last year?

Gerardo Norcia

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

A

Well, Angie, good question. The pandemic revealed some significant opportunities for us from a cost structure perspective by both our utilities. And as I have mentioned in earlier calls, we had this \$2 billion sitting on the sidelines, looking to get in, and – but we needed to create affordability room. Well, we have, in fact, done that and

created affordability room and the pandemic was very revealing as to what we could do in addition to what we have been doing for many, many years. And so, that's how we found the affordability room to bring in that capital into our plan for the two utilities.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Q

Okay. And this additional \$0.5 billion of CapEx on the Gas side, I understand that this hasn't been approved. So, what are you waiting for with that incremental spending?

Gerardo Norcia

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

A

The \$2 billion is something that's in our plan at the Electric company. The \$0.5 billion at the Gas company is sort of in the same position that the \$2 billion was in, which is we're looking for affordability initiatives to bring that into the plan. And we're trying to display that we've got a very strong inventory of investment opportunity at both utilities.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Q

Great. The 5% to 7% growth that you were reiterating, what's the – I understand that's off of 2020. What's the basis? What's the starting point? So, is it like \$5.47, so I'm basically stripping out [ph] the other GSP (00:44:40) earnings from 2020?

Gerardo Norcia

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

A

Dave Ruud, do you want to take that?

David Ruud

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

A

Yes. What we're showing there now is the 5% – the 7% for next year is based as if we didn't spend but 5% to 7% will be based on us having GSP removed from the baseline.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Q

Okay. And there is not going to be any type of reallocation of parent level expenses or something like that, that would weigh on that 2020 number?

David Ruud

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

A

We will have to work through the parent level expenses and how we've managed those internally, but they're not expected to be material that will weigh on that.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Q

Okay. And my last question about the Midstream spin-off, so we have this debate about – among investors about what is the multiple that this type of business will be trading at and we see this big disparity between pipeline multiples versus gathering multiples. Can you give us a sense from that EBITDA perspective what percentage of

the 2020 EBITDA is associated with gathering assets which seem to trade up meaningfully lower EBITDA multiples?

Gerardo Norcia

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

A

David Slater, you want to take that?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Sure can, Jerry. Angie, good to talk to you and, yeah, that's a good question. And what we've disclosed previously is we have about 10% in our storage business, about 40% gathering and 50% in the pipeline segment, and those percentages are income percentages. So you – that's a good proxy for your question.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Q

Okay. So with that in mind, looks like a simple math would indicate that this business would have a relatively low market cap [ph] right, coming around (00:46:37) \$3 billion to \$3.5 billion with seemingly strong technical pressure, because it has utility investors that's – they feel how your stock [indiscernible] (00:46:46), so why are you so convinced that this spin would actually create value given the relatively potential small market cap and technical pressures that it's [ph] going to make (00:47:00)?

Gerardo Norcia

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

A

Well, we think that, first of all, the spin creates a premier regulated utility 90%, 10% sort of structure inside our utilities that investors will have the opportunity to invest then with a strong capital growth program for five plus years. Our Midstream company is going to be well-capitalized when we compare it to its peers and they have strong dividend growth and we think it's going to be a very attractive investment for midstream investors and also current investors in DTE.

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Jerry, if I could add to that maybe?

Gerardo Norcia

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

A

Sure.

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Yeah. Angie, I think it's going to be a very unique investment opportunity in the midstream space that predominantly natural gas and its portfolio is really laying over the best dry gas basins in the country. And fundamentally, there's a lot of fundamental support and growth in those areas. So, I think this investment opportunity for those investors that are looking for a really high-quality midstream investment, I think it will be very attractive.

Angie Storzynski

Analyst, Seaport Global Holdings LLC

Great. Thank you.

Q

Operator: Our next question comes from Steve Fleishman from Wolfe Research. Please go ahead.

Steve Fleishman

Analyst, Wolfe Research LLC

Hey, congrats.

Q

Gerardo Norcia

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

Good morning, Steve.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Just, I don't know if you – hey, Jerry. So, I'm not sure you're positioned to answer this, just but in – as this call was going on, Elliott came out and said something about kind of being happy with this. So, could you just comment on any involvement they might have had with his or how to characterize that?

Q

Gerardo Norcia

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

So I'll start by saying Steve that we started to talk about this pivot in the summer of 2019 and we started looking at a pivot towards a pure-play utility model and it was a series of discussions between management and the board that really culminated just in the last few days. We talked to lots of investors and lots of potential investors and analysts and get feedback. But I'm not going to comment specifically on who we talked to and don't talk to.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Okay. And then just the kind of get a sense of the kind of thought on the new company financial. So obviously, the cash flow from the Gas business will be separated, but you should have more – this 18% FFO to debt target that you've had for a largely pure regulated utility, I would assume that you'll be able to fund it with somewhat meaningfully lower FFO to debt. And what is the – if you look at the peers for a largely regulated utility at your credit, like what would that range be versus the 18-plus that you've been at?

Q

Gerardo Norcia

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

Dave Ruud, do you want to take that?

A

David Ruud

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

Yeah. When we look at our peers we see them down in the 14% to 16% actually in that range. We are still committed to maintaining our ratings and so we're going to be really, really careful with that. But we do expect that this will be credit enhancing for us.

A

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Okay. And then lastly just on the Midstream business. So you had a kind of growth targets out there together for the Midstream business, I think it was like 9.5% net income growth type of thing. Could you just comment on how that business is tracking versus the prior growth target and was it – is it on track with what you'd said before for Midstream through 2020, I think it was through 2022 or 2024?

Gerardo Norcia

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

A

So, Steve, I'll start and then I'll turn it over to David Slater, but I would say that nothing has changed fundamentally from a growth perspective in our Midstream business. All of the organic opportunities that we were pursuing continue to play out. But David Slater, why don't add some more color to that?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Sure thing, Jerry. And Steve, that's a great question. And I'd just reiterate that absolutely nothing's changed in this business between yesterday and today. We've got a great team, a great management team that's going to be leading the new company and an excellent operating team that's coming along. As we progress through this standing up of a new C Corp, we'll be putting out detailed forward guidance, kind of best-in-class guidance, as expected in the midstream sector, and certainly be able to answer the question you're asking in a lot more granularity and detail as we move forward in the process here.

But suffice it to say, absolutely nothing's changed in the business. If anything, the fundamentals in the basins I described earlier are just strengthening right now. So we feel really positive about this new company and it's going to provide an investment vehicle for some of the midstream investors that really doesn't exist in the sector today. There's not another company, a C Corp in the midstream space that's positioned like this company will be positioned around those particular basins in the country, really attached to some really strong market centers.

Steve Fleishman

Analyst, Wolfe Research LLC

Q

Great. Thank you.

Operator: Our next question comes from Durgesh Chopra from Evercore ISI. Please go ahead.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Hey, team. Good morning. Just real quick...

Gerardo Norcia

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

A

Good morning.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Good morning. Just real quick follow-up on the tax implications of the spin. Just to – can you remind us when are you expected to be a taxpayer, I believe it's mid-2020s, and if this spin impacts that at all?

Gerardo Norcia

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

Dave Ruud?

David Ruud

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

Yeah. You're right. Currently it is mid-2020 to 2024 and this will be – as you know it's a tax-free spin. We don't expect it to influence that, but we'll get back to you for sure on that.

Durgesh Chopra

Analyst, Evercore Group LLC

Okay. Perfect. And then maybe just one quick one on 2021 guidance. What are you assuming in terms of, if anything, on COVID impacts? And then obviously stronger execution on the O&M front this year, should we expect that to sort of continue into 2021 as well?

Gerardo Norcia

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

I would say 2021 is positioned extremely well. We've – as you know, we plan very conservatively for our forward years, so we've [indiscernible] (00:53:56) have significant contingency to accommodate any sort of changes in load patterns or potentially incremental expenses. So, I feel really good about our position in 2021.

Durgesh Chopra

Analyst, Evercore Group LLC

Okay. Perfect. Thanks, guys.

Operator: Our next question comes from Stephen Byrd from Morgan Stanley. Please go ahead.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Hey, good morning and congratulations.

Gerardo Norcia

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

Good morning. Thank you.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Wanted to talk about the Midstream business. Would you be able to give us a sense of the maintenance CapEx? And I'm thinking not just about physical maintenance, but the CapEx needed to keep the cash flows flat and especially for the gathering business. How do you think about just the sort of base capital needs to keep the business running flat on EBITDA?

Gerardo Norcia

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

A

Well, I'll start this by saying it's a relatively new system, so those maintenance CapEx dollars will be modest at best. But David Slater, you want to add some color to that?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Sure, Jerry. You're exactly right, and Steve, that's a great question. And we're definitely going to be providing more color around that as we approach spin date. But the systems are all generally new, so very modest maintenance capital required for the foreseeable future and that'll be a very small number especially as you compare this midstream company with some of the other midstream companies that have more mature, larger networks that they're having to maintain.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

Understood. Yeah. As you all think through that I'd love to get a sense not just the physical which I assume is low but the economics maintenance for gathering, just given the nature of the business. But I guess moving on to just thinking about the gathering business and credit quality, could you give us little more information on the credit quality for that particular segment in terms of sort of range of customer ratings, any customer notices to modify or terminate agreements and just sort of other credit protections you have? It's a pretty common question that comes up on the gathering side, especially just curious how you think about the credit quality there.

Gerardo Norcia

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

A

David?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Sure. Yeah. That's another excellent question, Steve. So as we've disclosed in the past, and we provided a lot of detail on this one when we did the Haynesville transaction last year, in most of our agreements we put credit enhancement clauses in there to really protect not only the receivables but the forward obligations that those customers have. So that would be sort of my first statement and that's sort of hard coded into our DNA to always do that. So it has the effect of enhancing the credit profile of the counterparty.

But as I kind of step back and I know we shared this in the past with some of our bigger customers on the gathering side of our business would be [ph] common (00:56:59) names like Southwestern, Cabot, obviously Indigo [ph] and Terrell (00:57:07). So those are some of the names that are in our portfolio. And again, what – we've looked very closely at their credit and monitor that with a lot of detail, have a lot of information that they share with us like quarter-by-quarter so we're monitoring that closely.

And all of those customers are in good positions. They have no significant maturities before them and their cash flows are strengthening in the current environment with the fundamental strengthening and dry natural gas, it's benefiting all these companies. And so we actually see their credit profile strengthening. It's easier to see when you look at their – just look at their long-term debt and how it's trading, you can clearly see a strengthening credit profile across our gathering customers.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

That's really helpful. And just last one for me, just for the Midstream business overall, are there – are any additional cash flow metrics beyond EBITDA that you laid out whether – think about distributed cash flow, free cash flow some definition of cash flow or is that something that you all are going to provide at a later date?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Yeah. You're exactly right, Steve and those are what I would call best-in-class midstream metrics, and with the opportunity of standing this company up new, we're going to make it best-in-class. So we're going to work through those details and look forward to spending time with you down the road when we get closer to spin date and share all that.

Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Q

Understood. That's all I had. Thank you so much.

Operator: Our next question comes from James Thalacker from BMO Capital Markets. Please go ahead.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Q

Thank you very much and good morning.

Gerardo Norcia

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

A

Good morning.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Q

Most of my questions obviously have been answered but just two real quick questions. I guess the first is, as you were looking at becoming a pure-play, did you explore potentially divesting or winding down both the P&I and/or the energy marketing business and what was the determination to retain those businesses?

Gerardo Norcia

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

A

So James I'll start by saying that when we looked at all our alternatives to unlock shareholder value and create incremental value for our shareholders, the biggest mover that we saw was to really create the spin for GSP. We saw P&I as complementary to our ESG agenda with our remaining utility platform which will be 90% of our business. And so, we've decided to pursue this path at this point in time.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Q

Okay. Great. And just, I guess could you also just remind us also the – what was the outlook I guess for equity on a going forward basis? The question has been asked a bunch of times, but I know that you're targeting 18%, but with a pure-play utility you probably should be down sort of in the mid-teens. And then on top of it, you have the

conversion I think in 2022 of the convertible that was done to finance the Midstream business. It seems like you have a lot more flexibility either not to issue equity or maybe to use incremental debt. So, could you provide some guidance I guess how you're thinking about how much equity was in your plan now for the five-year period?

Gerardo Norcia

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

Dave Ruud, you want to take that?

David Ruud

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

Sure. Yeah. In the deck, in the Appendix on slide 28, it showed our previous planned equity issuances. And you can see in the next year there was \$100 million to \$400 million and then in 2022 was the \$1.3 billion of convertible equity units, they come into the plan. So, that was – that is and was consistent with what we're seeing going forward.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

But as you move I guess beyond 2022, should we expect any material equity or is this going to be something that's just going to be more sort of \$100 million, \$150 million [indiscernible] (01:01:17) type of issuances?

David Ruud

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

Like in our plan going forward, there are no major and no equity issuances that we see in those years.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Okay. Great. Thank you very much.

Operator: Our next question comes from Jeremy Tonet from JPMorgan. Please go ahead.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

[indiscernible] (01:01:42-01:01:48) 1.5% earnings growth through 2024, just trying to see, is there any reason to think that EBITDA growth, is that different [ph] from that type of (01:01:57) trajectory you see on the earnings growth to remind us as far as how much of this growth is contractually underpinned with MVCs? Just trying to get a feeling for that. Thanks.

Gerardo Norcia

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

David, do you want to take that?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

Sure can, Jerry. Jeremy, I had a little hard time hearing the beginning of your question. I'm just going to repeat it. I think you're asking about EBITDA growth versus earning growth and how much of that is kind of enhanced. So

that's a question I'm going to answer, and you can change it if I got it wrong. But so first off, just to reiterate, nothing's changed in the business from what we've previously disclosed. So business is strong. It's performed incredibly well this year, been incredibly resilient to a difficult year in the sector and a difficult year with respect to the pandemic. So, that gives me lots of confidence of the durability of the business.

In terms of the growth and would EBITDA growth be moving in tandem with income growth, I think that's generally a true statement. And again, I think as I answered earlier, we'll be providing a lot more granular details sort of best-in-class guidance as we progress and get closer to spin date. So I trust that answered the question.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Yeah. That's helpful. I just want to see – it sounds like contractually [ph] underpin that growth and it was over (01:03:30) 90% demand contracts, it seems like that's pretty unique in the midstream universe. I just want confirmation that EBITDA was [indiscernible] (01:03:40) it sounds like it does. So that's really helpful to hear.

And then, just pivoting maybe towards the Midstream entity itself, I don't know what you can say looking forward as far as the strategic outlook there. Is there anything that you can comment [indiscernible] (01:03:57) good organic growth that's kind of unique in the space right now. I don't know anyone else talking about [ph] 9% growth and that 4% what – (01:04:04) 4 times leverage is surely near the low-end of peers out there so it seems like you have some really strong flexibility there that maybe you could [indiscernible] (01:04:15) just want to get a sense for these things, are you guys going to stick to your base, [ph] is that (01:04:20) what you're doing there or is anything going to be – anything going to change strategically?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Yeah. It's a great question, so...

Gerardo Norcia

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

A

David?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

Yeah. First off, the assets are great assets and they're positioned across – when you look at the resources in the country right now, these are the resources that all the analysts expect are going to get attention in the next year or two. And the company is positioned from an investor perspective to provide an investment vehicle for people that want to have exposure to the midstream around the best natural gas basins in the country, and attached to literally the best market centers in the country.

So I think you alluded to it, it's a very unique investment vehicle that we believe is going to be distinctive in the sector. And we're setting it up to have a very healthy balance sheet with a healthy dividend and a lot of flexibility going forward to continue what I'll call the strategic intent that we've had, which is continue to make highly accretive value generating investments on and around that portfolio of assets where we have competitive advantage and asymmetrical information.

So, yeah, I don't think – there's no significant strategic shift that's expected here in the near-term. But again, as we approach spin date, I'm looking forward to laying the plan out in more detail and having good conversations with the investor base going forward. So, thanks. Thanks, Jeremy for the question.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Thank you.

Q

Operator: Our next question comes from Jonathan Arnold from Vertical Research. Please go ahead.

Jonathan Arnold

Analyst, Vertical Research Partners LLC

Yeah. Good morning, guys.

Q

Gerardo Norcia

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

Good morning.

A

Jonathan Arnold

Analyst, Vertical Research Partners LLC

Just a couple, Jerry, you – in the question about REF, you mentioned the outlook off of the I guess adjusted 2020 original base includes the replacement that you've been working on. Is that – are you just referring to the \$15 million a year origination pathway that you've talked about or is there something more significant you're maybe alluding to there?

Q

Gerardo Norcia

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

No, it's essentially that \$15 million a year that we've been originating in new income. So, you're correct.

A

Jonathan Arnold

Analyst, Vertical Research Partners LLC

Okay. So I just wanted to make sure there wasn't something else that you're hinting at. And then secondly, there was a comment made about potentially delaying the next rate case in the filing you'd recently made and it was a lot of material. I just wonder if you could clarify what you were saying there and maybe put it in context of your comment about the base case timing I think of early 2021.

Q

Gerardo Norcia

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

Sure. Great question. So, we've had a really strong year in Electric company this year and some portion of that has been driven by incremental sales due to COVID and the pandemic as it relates to our residential markets. So, what we're doing Jonathan is essentially deferring a portion of those earnings in 2022 to offset a potential rate increase in 2022. What that does is that it gives us the opportunity to reconsider timing of filing the rate case. So, that's really what that's about.

A

Jonathan Arnold

Analyst, Vertical Research Partners LLC

Q

Okay. And just, any suggestion as to how far – you would defer it roughly a year, is that a good assumption?

Gerardo Norcia

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

A

Well, it's probably too early to say, Jonathan, but we'll continue to update you as we move forward.

Jonathan Arnold

Analyst, Vertical Research Partners LLC

Q

Great. Thank you.

Gerardo Norcia

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

A

We'd like to see a portion of 2021 start to play out before we make that decision.

Jonathan Arnold

Analyst, Vertical Research Partners LLC

Q

Okay. Thank you very much.

Operator: Our next question comes from David Fishman from Goldman Sachs. Please go ahead.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Good morning.

Gerardo Norcia

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

A

Good morning.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Just a few questions from me. I know the spin itself is tax-free, but is there any impact on your ongoing cash tax position post-spin? Does this pull forward when you might become a cash taxpayer at the regulated [indiscernible] (01:08:44) your five-year plan or is there not much of a material impact there either?

Gerardo Norcia

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

A

Dave Ruud?

David Ruud

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

A

Yeah. We are going to – we'll look more into that and see what the impact is there and we'll have to get back to you and let you know then. But you're right, we weren't cash taxpayers until 2024.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Okay.

Q

David Ruud

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

We don't think it will have – we don't think this will have much of a material impact, though.

A

David Fishman

Analyst, Goldman Sachs & Co. LLC

Okay. Good to know. And then back on the post-REF P&I, I know you pretty much just mentioned that you're still shooting for I guess the \$15 million or so a year, but could you guys maybe comment on what you kind of broadly see as the opportunity set there for RNG and co-generation? And do you expect P&I will really be growing enough to maintain a 90%, 10% regulated versus unregulated mix longer term, especially given the elevated regulated growth rates?

Q

Gerardo Norcia

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

Well, that's what we see now, David, is P&I being able to grow in the sectors that we described which is really to RNG and co-gen and we're still seeing good opportunities there. We have one that's in late stages right now in the RNG front that we're feeling really good about. And so we're continuing to see activity and really nice returns there. But it will be a very small part of our portfolio going forward. But we do see it at that 90%, 10% mix over the next five years.

A

David Fishman

Analyst, Goldman Sachs & Co. LLC

Okay. Okay. And then I guess still on the clean energy. On the voluntary renewables, initially you guys had talked about a 1.4 gigawatt target by 2030. Your updated filings looked like nearly that amount by 2025. How have your conversations kind of gone for maybe the second half of 2020, if you even went out that long, because it seems that clearly over the next five years you've had a big pull forward? Just if you can maybe give us a little bit more color on kind of how the whole [ph] deck is (01:10:49) kind of shaping out a little bit there.

Q

Gerardo Norcia

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

Well, I have to tell you, this voluntary renewables program that we have has been very exciting. It's a product that we have a hard time keeping on the shelf. We are selling it quite a bit to our residential customers and also our large industrial customers and even smaller industrial customers want this product to really green up their power portfolios – power usage portfolios. So, as you've said, we've been able to pull forward our projections as to when we will hit the 1.4 gigawatts, but we'll continue to sell into this market and continue to update as we go forward, but we're doing much better than we had ever anticipated in that market.

A

David Fishman

Analyst, Goldman Sachs & Co. LLC

Got it. And I imagine this is something we'll get a little bit more color on at EEI or [indiscernible] (01:11:45)?

Q

Gerardo Norcia

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

A

Sure. Yeah. We'll provide an update at EEI, but what we can tell you now is that we have 750 megawatts sold and we're going to build for that. We've got some filings in front of the commission to pursue those bills. And as we learn more and develop more market, we'll continue to update you.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then, just last one for me, I know you briefly touched upon this, but the Energy Trading business, what would you say is kind of the strategic rationale as keeping the Energy Trading business as a part of the ongoing kind of DTE entity?

Gerardo Norcia

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

A

David, that's a very small part of our company, and certainly not a business that we look to grow. And what we use it for is to really be a market maker. So, for example, with our [ph] energy (01:12:32) projects, and even in our cogen facilities we use it to manage risk with those investments either for ourselves or on behalf of our customers. And that's really the primary purpose of that little business.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. Congratulations, and thanks for taking my questions.

Gerardo Norcia

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

A

Thank you.

Operator: The final question we have time for today comes from Ryan Levine from Citi. Please go ahead.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Good morning.

Gerardo Norcia

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

A

Good morning.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

So, what is DTE's tax basis in the Midstream portfolio today? And how long would DTE Midstream need to remain a public company to avoid triggering a tax event for current DTE shareholders?

Gerardo Norcia

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

A

David?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

No, I don't think we've – we haven't released our tax basis or said what our tax basis is in DTE Midstream. What was the – excuse me, what was the second half of that question?

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Would you be willing to disclose that? And then also, how long would DTE Midstream need to remain a public company to avoid triggering a taxable event for current DTE shareholders?

David Slater

President & COO-DTE Midstream, DTE Energy Co.

A

I think we'll have to get back to you on that one at EEI too.

Gerardo Norcia

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

A

Yeah.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then how are you thinking about setting a new DTE Midstream dividend policy? And how are you defining the dividend coverage ratio in the press release of 2 times for 2021 for this pro forma company?

Gerardo Norcia

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

A

Dave Ruud?

David Ruud

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

A

Yeah. That's still to be totally nailed down as we – as we've established the Midstream company. But we do plan to establish one that's competitive with peers. And we talked about that being the 2 times dividend coverage ratio, and that's the distributable cash flow over the dividend is how that will be defined consistent with other midstream companies.

Ryan Levine

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Operator: This concludes the Q&A portion of today's call, and I would like to turn it back to Mr. Jerry Norcia for final comments.

Gerardo Norcia

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

Thank you. Well, thank you everyone for joining us today. I'll close by saying we had a very solid quarter and are well-positioned for a strong finish to 2020 and a really great start to 2021. I believe the spin of DTE Midstream will

unlock significant value for our shareholders and drive future growth. I look forward to talking to all of you in a few weeks at EEI. I hope everyone has a great morning and stay healthy and safe.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you once more for participating. You may now disconnect.

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