

Q3 2022 Earnings Call

Company Participants

- Barbara Tuckfield, Director of Investor Relations
- David Ruud, Senior Vice President & Chief Financial Officer
- Jerry Norcia, Chairman, President and Chief Executive Officer

Other Participants

- Anthony Crowdell
- David Arcaro
- Insoo Kim
- Jeremy Tonet
- Michael Sullivan
- Nicholas Campanella
- Paul Zimbardo
- Ryan Levine
- Shahriar Pourreza
- Travis Miller

Presentation

Operator

Good morning, and welcome to DTE Energys Q3 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. (Operator Instructions).

I would now like to turn the call over to, Barbara Tuckfield, Director of Investor Relations. Miss Tuckfield, please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, and good morning everyone. Before we get started, I would like to remind you 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.

With us this morning are Jerry Norcia, Chairman, President and CEO; and Dave Ruud, Senior Vice President and CFO.

And now, I'll turn it over to, Jerry, to start the call this morning.

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Barbara, and good morning, everyone and thanks for joining us. Let me start by saying that, three-quarters of the way through 2022 we are on track for a very successful year, and we continue to be well positioned for the future. This morning I will highlight some of the successes we have accomplished this year, and Dave will provide a financial update and wrap things up before we take your questions.

We are very well positioned to achieve our operating EPS guidance. The \$6 guidance midpoint provides over 8% growth from our 2021 original guidance midpoint. As many of know, we will be filing our integrated resource plan or IRP next week. This filing will provide updates on our path for decarbonization and our commitment to continuing to provide clean, reliable and affordable energy to our customers. Our team has been working hard on this filing going through multiple scenarios and taking into account stakeholder feedback to develop a plan that works best for all of our customers as well as incorporating the benefits of the inflation reduction act or the IRA.

I'm extremely proud of all of our team members who have put their energy into this filing, naturally the IRP will impact our five-year capital plan, and we are excited to provide further details in a couple of weeks at EEI. Along with our capital plan update, we will provide an update on our long-term growth strategy at this conference. We will also provide updates on our volunteer renewables program, MIGreenPower, which continues to show substantial growth. Just this week we subscribed to a new 400 megawatt customer, increasing the program to 2,100 megawatts of subscription.

As climate change remains our generations defining public policy issue, DTE is committed to doing our part by continuing to invest for our customers and to ensure reliability. Our electric grid needs to be modernized to be resilient against extreme weather and also be able to accommodate significant new demand that will be coming in the future. Our electric grid will continue to see increased load as the pace of electric vehicle adoption accelerates. We are focusing on updating and improving our aging infrastructure for this additional demand, while continuing to provide safe, reliable and affordable energy.

Recently, we saw the passage of the IRA. We see the IRA as a positive overall for our company with benefits for both our utility and non-utility businesses. Dave will go into the specifics in a few minutes on the positive impacts of the IRA.

Let's move to Slide 5 to discuss how we are delivering for all of our stakeholders. We know that with our engaged and talented team, we will continue to deliver for our customers, communities and investors. We are working hard on all these fronts and I'm pleased to highlight some of the recognition we have received. DTE was recently named a top 10 employer in the state of Michigan by Forbes Magazine. Additionally, after our most recent engagement survey with Gallup, DTE ranks in the top 4% of companies worldwide in employee engagement which continues to give me confidence that our team will deliver for our stakeholders.

FINAL

We also continued our efforts to support our customers. As I mentioned earlier, we will be filing our IRP next week. This will provide detail on our plans to generate safe, clean, reliable, affordable energy as we accelerate our decarbonization efforts. We continue to be an integral part of the community. We recently joined the city Detroit and the White House to form the Detroit tree equity partnership. This ambitious program aims to build Detroit's tree canopy by planting tens of thousands of trees over the next five years. Cooling urban areas while providing beauty and air quality improvements.

The program will also hire and train workers to plant and maintain the trees in the city, bringing jobs to our community. We are also partnering to drive economic development in the state of Michigan. Our next energy recently announced that they will be bringing 2,000 jobs to Michigan with a \$1.6 billion investment in new battery operations. We are helping the state transition to a new automotive future with electric vehicles. Given all of this positive momentum, we also feel great about our financial position as we head into the final months of 2022, and are on track to achieve our 2022 operating EPS guidance.

Let's turn to Slide 6. With the opportunities we have in front of us, DTE is on track to make significant customer-focused capital investments across our businesses. These investments are transforming the way we produce power as we shift toward renewables and natural gas, and away from coal generation. Two important factors affecting our grid are climate change and emerging electrification technologies. We need to build the grid of the future to ensure we can continue to provide clean, safe, reliable, and affordable energy.

Additionally, at our gas utility, we continue our important main renewal work, which further reduces greenhouse gas emissions. I'm happy to say we are on target to complete another 200 miles this year. Finally, at DTE Vantage, continue to add new RNG projects and other energy solution projects for our customers, which enables growth with a focus on decarbonization. We execute on all this investment with a sharp focus on customer affordability, and ensuring that we continue to manage our business to achieve that.

Our distinctive continuous improvement culture drives cost management, the shift from coal to natural gas and renewables also helps to further reduce operating costs. Our diverse energy mix helps reduce fuel costs as well, that allows us to maintain flexibility to adapt to future technology advancements. The IRA supports this transition to renewable energy while achieving customer affordability goals and further enhances opportunities for growth at DTE Vantage.

With that, let me turn it over to Dave.

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry and good morning, everyone. Let me start on Slide 7 to discuss how the inflation reduction act helps accelerate DTEs clean energy transition while also helping customer affordability. As Jerry mentioned, the IRA has a lot of positive elements for DTE to benefit both our utility and non-utility businesses. Jerry discussed a significant capital investment that we need to make for our customers to provide cleaner generation and to

Bloomberg Transcript

FINAL

improve and prepare the grid for electrification. The IRA really helps maintain our customer affordability goals, while we execute we execute this plan.

The wind and solar production tax credit support a more affordable acceleration of our clean energy transition as we build a renewable portfolio. The ability to transfer tax credits will eliminate the need for tax equity partners which allows us to retain an additional 40% of the investment for our projects. The PTC for nuclear generation support affordability by providing credits for our production based on the market price environment. The IRA provides new investment tax credits for RNG making some of the projects we are working on at DTE Vantage even more attractive and allowing potential RNG projects to be more economic for our utilities.

The increased tax credit for carbon capture and sequestration can benefit both our non-utility and utility operations. The credits make more projects economically attractive, which enhances our business development opportunities, enables us to better help our industrial customers achieve to a customers achieve their environmental goals. The tax credits can also support future baseload generation with carbon capture and storage for our utilities.

Lastly, we don't see a material income or cash impact from the corporate minimum tax, given our current tax carry forward position and accelerated depreciation provision in the IRA. Overall, we view the IRA as beneficial for customers and supportive of the transition to cleaner energy while maintaining affordability.

Let's turn to Slide 8 to review our third quarter financial results. Operating earnings for the quarter were \$311 million, this translates into a \$1.60 per share. You can find a detailed breakdown of EPS by segments, including our reconciliation to GAAP reported earnings in the appendix. I'll start to review at the top of the page with our utilities. DTE Electric earnings were \$363 million for the quarter, this was \$21 million higher than the third quarter last year driven by accelerated deferred tax amortization in 2022 that was implemented to delay our rate case filings and keep us out of rate cases over the last three years along with lower O&M costs this year. These were partially offset by higher rate based costs in cooler weather.

Moving on to DTE Gas. Operating earnings were \$7 million higher than the third quarter last year, the earnings variance was due to the implementation of base rates, partially offset by higher rate based costs. Let's move to DTE Vantage on the third row. Operating earnings were \$26 million, this is a \$47 million decrease from third quarter last year, due to the sunset of the REF business at the end of 2021, partially offset by higher earnings from industrial energy services. On the next row, you can see energy trading earnings had a decrease of \$33 million from the third quarter of 2021, mainly due to the performance of the power portfolio compared to last year.

As I mentioned, the second quarter call, there is also a reversal of the timing favorability in our physical gas portfolio as our strategic long positions use to support physical positions were transacted this quarter, this reversal may continue in the fourth quarter. Year-to-date

energy trading earnings are \$32 million, we are on track to achieve full your guidance of \$20 million to \$35 million.

Finally, Corporate and Other was favorable \$29 million quarter-over-quarter, which is primarily due to the timing of taxes and a one-time tax true up in 2021 that we mentioned third quarter call last year. Regarding the balance sheet for Corporate and Other, we've already successfully remarketed a senior note associated with the equity converts this quarter, and will pay down the \$1.25 billion of parent debt coming due in November, with the proceeds from the equity the equity conversion. The pay down of these notes and the early remarking a convertible debt are good examples of measures taken to reduce interest costs.

Our planning process contemplated inflationary pressures and rising interest rates. And we are confident that we will offset increased costs with no impact to our long-term growth. Overall DTE earned \$1.60 per share in the third quarter.

Let me wrap up on Slide 9 and then we'll take your questions. In summary through three quarters we're having a strong operational and financial year and we are on track to achieve our operating EPS guidance midpoint of \$6 per share which provides over 8% growth from our 2021 original guidance midpoint. As Jerry mentioned, we'll be filing our IRP in early November which will lay out our plan to support a cleaner energy and the modernization of our electric grid while focusing on affordability and reliability. We believe the IRA supports affordability for our customers and positions DTE to continue to grow in the near and long-term.

We look forward to seeing you at EEI, we will lay out our 2023 early outlook and our five-year plan as we incorporate the details of the IRP.

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Nick Campanella from Credit Suisse. Please go ahead, your line is open.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey. Good morning, team. Thanks for taking my questions here.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Nick.

FINAL

A - David Ruud {BIO 16089859 <GO>}

Hi Nick.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Good morning. Good morning. Just wanted to ask on the IRP, I know it's pending and coming soon, but you could potentially see a meaningful kind of CapEx opportunity out of this, and how should we think about funding any kind of incremental CapEx to the base five-year plan today especially when we kind of think about common equity funding, any thoughts there?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, you want to take that?

A - David Ruud {BIO 16089859 <GO>}

Sure. We are -- as you mentioned, Nick, we're going to give more guidance on our capital plans at EEI, but you're right, we have a good opportunity with the IRP and the IRA to invest in additional capital. We do have a strong balance sheet, and rating agencies are comfortable with where we're at in our position. So we have a little flexibility there with our capital structure that we can support these investments before we have to use additional equity to. So we'll give more detail at EEI, but I think you're right, we do see some additional capital opportunity to the IRP and what the IRAs allowed us to do.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Got it. Thanks. And then I guess it just relates to the electric rate order or not order, but you got an ALJ rack, I think you filed some exceptions as well. Just when do you see that kind of coming to fruition? And do you still kind of feel comfortable, and kind of giving this outlook if, my understanding is that proceeding comes after when you give the outlook? Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. We feel comfortable with where we're headed, both the ALJ positions and staff positions. If you take various components of that, are quite supportive of our plan. So we view it as supportive of our long-term plan. And certainly, there's strong alignment to make the investments in a grid, as well as clean generation. So there's strong alignment there as well.

Q - Nicholas Campanella {BIO 20250003 <GO>}

All right. See you at EI, thanks so much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

A - David Ruud {BIO 16089859 <GO>}

Bloomberg Transcript

Thanks.

Operator

Our next question comes from Shahriar Pourreza from Guggenheim Partners. Please go ahead, your line is open.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey guys, good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey, Shahriar.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shahriar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

To Jerry, just starting off with the IRA, and how that has impacted your thoughts, I guess around the IRP. I mean obviously there's clearly customer benefits and lower cost, but does that trigger kind of any sort of a revision to your planning inputs verses prior to the enactment, right? Because we've been talking about this IRP for some time, so we've got a bit of a sense there, did the IRA change, I guess the calculus and what we've discussed before in prior slides? And then just to remind us, do you have any sort of tax equity embedded in renewable spending, where we could see an opportunity to avoid that tax equity and increase rate base? Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Great question. So, the IRA had a very positive impact on our IRP from two perspectives. One, certainly lowered the cost of all of our investments in renewables as well as long-term it improved the outlook for carbon capture and storage in our IRP. So, very positive benefit to affordability, which allowed us to accelerate our transition. And so I think you'll see that when we roll that out next week, so very positive impact from the IRA, and of course you know what the tax credits are \$26 from regular on solar and wind and PTCs on nuclear.

All of those are going to have a beneficial impact to our plan. In terms of tax equity with the IRA and provisions in that IRA making tax credits transferable, we don't longer need tax equity structure, which significantly simplifies our plan but also removes an investment partner. So we have now the opportunity to investor greater amounts in our renewables, the build-out. But very positive impact overall.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Perfect. And then just, it sounds like I mean you guys are even more constructive on the Vantage segment post IRA, but simultaneously there's obviously been some really

FINAL

Bloomberg Transcript

high premiums paid for RNG assets. Did IRA kind of change your thoughts or even internal debates and whether you would ever put Vantage under a strategic review, and conversely since IRA potentially accelerates Vantage's growth, does it even make sense in terms of the business mix for DTE guys target, as we're thinking about regulated utility exposure?

A - Jerry Norcia {BIO 15233490 <GO>}

The way we're looking at Vantage right now, Shahriar, is that, it'll be our non-utility business will be 10% of our portfolio, but the IRA, the investment tax credit for RNG of 30% just made the projects we were looking at even more economic significantly lifted the IRRs, and many of the projects that we were looking at. And then the Cogen investment tax credit of 30%, that also helps projects that we've got in the pipeline and become much more economic.

So we're excited about that, so that 10% that we're looking to create and continue to create an advantage has just become much more economic. The last one is carbon capture and storage, which we've started to explore and have some interesting small opportunities in that arena as well, which not only will be beneficial to Vantage but will also be beneficial to our electric utility as we think about carbon capture and storage as it relates to our generation assets. So, really starting to understand that business in a deeper way. So overall I would say the impact on Vantage from the IRA again was quite positive. This IRA has had and this can impact in our thinking as it relates to our electric utility as well as Vantage in terms of creating more opportunity in both business segments.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it, terrific. Thanks guys. And Jerry congrats on a side comment on the latest addition to your family. See you guys soon at EEI.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you. Thank you, Shahriar.

Operator

Our next question comes from Jeremy Tonet from JP Morgan. Please go ahead, your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jeremy.

A - David Ruud {BIO 16089859 <GO>}

Hey Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Good morning. Just wanted to start off on RNG landscape if I could, given the Archaea sales here, and what looks on the surface to be quite a robust valuation paid there, just wondering any thoughts from your side on that transaction? And whether that impacts your go forward RNG strategy?

A - David Ruud {BIO 16089859 <GO>}

Yeah. Hi, Jeremy, this is Dave. As we've said, we're always looking at our portfolio considering options. We did see the Archaea sale and I think it really highlights the value that other see for RNG and really the growth potential for RNG. And so first gives us confidence that we're going to find more high growth potential projects but also can will make us continue to look to make sure that we're doing what's best for the long-term value of our shareholders. Right now, we're just really confident in our business development pipeline, we continue to grow that and continue to find really accretive projects for us.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. So even with this level, I guess of interest in this space and strong valuations, you still see new projects clearing your hurdle rate. There's not too much competition out there to drive down expected rates of return on these projects?

A - David Ruud {BIO 16089859 <GO>}

We have some really good projects that are in our pipeline right now, some of these are conversions and some and with the IRA some of them become even more attractive. So we still have a really strong business development pipeline that we see in the Vantage business.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, look at the -- our business development pipeline as we look at a few years is well stocked with high return projects in the RNG space and we've also got a few industrial projects, Cogen projects that were pursuing that will bring values long-term value to the Vantage business unit. So, it feels like the pipeline to us is very strong in terms of growth with high quality investments.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. I'll leave it there, thanks.

Operator

Our next question comes from David Arcaro from Morgan Stanley. Please go ahead. Your line is open.

Q - David Arcaro {BIO 20757284 <GO>}

Morning. Thanks so much for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - David Arcaro {BIO 20757284 <GO>}

I was wondering if you could give a perspective on the commission's audit that they recently kicked off related to outages and safety, wondering what you think should come out of this in terms of potential policies, or penalties or anything like that?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So, as we look at the commission order, our discussions with the commission continue to be really collaborative, and I would say the relationship is in a good place. Ultimately, I think the result of this order is that, it will create even stronger alignment as it relates to our investment agenda. Just to give you a feel for at our system on average operates at about 99.9% availability, our best-in-class is 99.97% availability of the grid.

So, you can see that this is a highly reliable industry when it comes to providing power to our customers. And all of our investment plans are really pointed at, how do we get to that 99.97% availability for our grid. So, I feel that this process with the commission will create stronger alignment, and there's a lot of value for our customers to go even from 99.9% and 99.77%. And we'll start to lay all that out, and it'll be I believe, it'll be a good process, and it will come to a good conclusion.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. Thanks. And does that sound like more operational changes or CapEx investments or how could that improvement play out?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, when I look at our circuitry, we've got systems that need to be replaced and modernized and automated and as we rebuild new circuits and upgrade those circuits and modernize them, it's going to require a significant amount of capital investment and I think you'll see that in our planning as we rollout our new plan at EEI, we continue to accelerate this strategic capital. There were investing in a grid, in addition to our maintenance capital, but it will be primarily capital driven process.

Q - David Arcaro {BIO 20757284 <GO>}

Got it, that makes sense. And I was just wondering if you could comment on results so far for the year, and whether you've been able to, or just what level of kind of expense you might have been able to pull in to 2022 so far? What are you thinking for the rest of the year here just as you set up into 2023 earnings guidance, can you pull forward more expenses into 2022 given the strong results?

FINAL

Bloomberg Transcript

FINAL

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We have had a strong year in 2022, and as we look at our portfolio over the few years, we do try to balance what we can do in '22 and '23 across all our businesses. So, we have been able to find some opportunity to help 2023 as we go through this year too, because as you've seen '22 has been a nice strong year for us.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, thanks. Appreciate the color.

Operator

Our next question comes from Insoo Kim from Goldman Sachs. Please go ahead, your line is open.

Q - Insoo Kim {BIO 19660313 <GO>}

Yeah, thank you. I think just one for me remaining just as we think about I guess the updates that you guys will give at EEI especially the long --long-term growth rate. A lot of positives here that you mentioned, what are some of the I guess offsetting factors that we should consider and on a net basis do you still see overall developments as a positive. I guess on netting out basis I would think of whether its cost inflation or maybe holding company leverage refinancing, those type of items. Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

I'll start and I'll turn it over to Dave, Insoo. But overall net positive we view our ability to invest on behalf of our customers to really transformer generation fleet to a cleaner and more reliable fleet as a significant opportunity and that will be the basis of our IRP and also the investment of the grid to drive increase resiliency and reliability of the grid will be a significant opportunity for us.

So this is going to create a transformative opportunity to, and how we deliver power and produce power for our customers, but also create a very significant investment opportunity for our investors to invest against all of us. And many of our investments are pointed at areas that will reduce operating costs as well, so for example our generation transformation will be a net positive to our customers, investing in our grid ultimately would be a net positive to our customers. So, we're pretty excited, and this historic transformation that we're undertaking at DTE for electric company.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Maybe I will throw in one more. As we think about the updated growth brand coming out of EEI, what is the base I guess year or EPS that we should be contemplating when you give your role for? Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Bloomberg Transcript

And we do our role for we always go back to original guidance, so those will be on 2022 original guidance.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you so much.

A - Jerry Norcia {BIO 15233490 <GO>}

Okay, thank you.

Operator

Our next question comes from Paul Zimbardo from Bank of America. Please go ahead.
Your line is open.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi good morning, and thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Just want to follow up on a comment, you made about interest rates. You said, if I heard alright contemplated higher rates in the plants, that no one packed on long-term growth. Just to clarify, is it that you assumed kind of rates up here, or is it that you have other offsets with a cost elsewhere in the plan to dampen that impact and fully offset?

A - Jerry Norcia {BIO 15233490 <GO>}

We had to have a tendency to plan conservatively and we look at a lot of risk and opportunities in our plan. We look at that every week and look at the challenges. So we are confident, depending or irregardless of how rates move -- regardless how rates move, we will be able to offset those with other things within our plan.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Great. And then probably could you discuss kind of how demand has been on volunteer renewables throughout 2022. I know it's been a very eventful year at the large automaker announcement on solar this summer and if you could discuss kind of incremental partnerships using that model from for that you're contemplating? Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, it's been an extraordinary year for our volunteer renewables program. Actually, matter of fact, this week, we executed -- we're in the process of executing an agreement for another 400 megawatts of sales long-term commitments. This takes us now to a total of 2,100 megawatts sold, which is well above our expectations at the world we would be

at this point in time. So, we'll provide an update at EEI, and how do we see this progress in a successfully impacting our long-term plans. So, we'll update you on that, but it's been an extraordinary success story.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay, great. And to follow-up on it super quickly. Do you think you can replicate the kind of success you've had in 2022 in 2023?

A - Jerry Norcia {BIO 15233490 <GO>}

We've got significant opportunities in front of us, the pipeline is strong, and we'll continue to grow that program. And then as we look at transformation of our generation fleet that will also bring new opportunity to the renewables fleet. So, renewables will be a big part of our agenda going forward here at DTE.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay, great. Thank you very much.

Operator

Our next question comes from Michael Sullivan from Wolfe Research. Please go ahead, your line is open.

Q - Michael Sullivan {BIO 20972193 <GO>}

Hey there, good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Michael Sullivan {BIO 20972193 <GO>}

Hey Jerry. Dave, this one's actually for you, just following on the AMT impact, can you just let us know what you're assuming for the repairs tax deduction on your kind of end result there?

A - David Ruud {BIO 16089859 <GO>}

Yeah, thanks Mike. Yeah right now we're looking at as written so we think that the way it's written it does apply to things like storm repairs and doesn't get the favorable treatment under the BMT even with that we don't see that this is going to have a big income or cash impact on our plan. We do know that EEI is advocating to have this included and that we would benefit from that also, but we've already modeled that we can mitigate any cash or income impact from the BMT for the most part.

Q - Michael Sullivan {BIO 20972193 <GO>}

Okay. Okay, that's super helpful. And then just sticking with that, I think you mentioned some cushion versus credit metrics. Can you just refresh us on where you're at on FFO-to-debt and what the thresholds are?

A - David Ruud {BIO 16089859 <GO>}

Yeah for -- it's a little different across the agencies, but right now we're around 16% FFO-to-debt. You can see the thresholds by rating agencies are in the 13% to 14% range. So, we do have some cushion there to those ones.

Q - Michael Sullivan {BIO 20972193 <GO>}

Great. Thanks a lot.

Operator

Our next question comes from Travis Miller from Morningstar. Please go ahead, your line is open.

Q - Travis Miller {BIO 15260606 <GO>}

Good morning. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Travis.

A - David Ruud {BIO 16089859 <GO>}

Good morning.

Q - Travis Miller {BIO 15260606 <GO>}

Hi. With respect to the IRA, was enough detail out on that such that the full IRA impact would be included in the IRP? Or is there something more to come? I know you'd be able to incorporate into your own forecast but it's 100% of it incorporated in the IRP?

A - Jerry Norcia {BIO 15233490 <GO>}

It is. It is incorporated. Dave, do you want to add any thoughts to that?

A - David Ruud {BIO 16089859 <GO>}

We will see the details as they get specified over the next year. But understanding what's going to happen in the at the high level for our generation can all be incorporating the IRP and then how the how it goes into our plan. We can we feel like we can model that but how it plays out specifically is still yet to be decided as you know.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. Great thanks. And then just real quick, any election issues in Michigan that would have a material impact on either short-term or long-term outlook?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, certainly we've worked well with various administrations over history republican dominated administrations, democrat dominated administrations. We'll see what happens in November, but it feels like the compact that exist today will likely remain intact in terms of the political structure but we'll know more after election day, but whatever the results we feel that we have productive relationships and that there's clear understanding by republicans and democrats what our investment agenda is and what the purpose of our agenda is. And strong support for that.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. Great. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Our next question comes from Anthony Crowdell from Mizuho. Please go ahead. Your line is open.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Jerry, Dave, good morning. Congrats on a good quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Anthony.

A - David Ruud {BIO 16089859 <GO>}

Hi Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

I just have one quick one and I appreciate if you want to hold an answer until you make the filing to the IRP which is just if I understand correctly, there's a lot of consensus building prior to the actual filing, just looking for some inside data, is that still accurate in any particular topic or issue that you've got the more feedback than others?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I would say Anthony, we did an extensive amount of stakeholder engagement throughout this process more than I believe we've ever done. And so that's been quite valuable to us. And what I would say most revealing for us was when we tested our customer opinions across broad demographics, what we saw was strong alignment with

our IRP, and that'll certainly be very evident when we file the IRP engagement with other stakeholders, regulators and legislators I would say support, of course as we get into the details, we'll have to work out those details and I'm sure that some state leaders will have different opinions, but I'm pretty confident we're going to work through all of that, and end up with a really strong IRP that supports a transformation -- fundamental transformation of our generation fleet.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. That's all I had. Looking forward to seeing you guys down in Hollywood.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Anthony. See you soon.

Operator

Our next question comes from Ryan Levine from Citi. Please go ahead, your line is open.

Q - Ryan Levine {BIO 19520640 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hey Ryan.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Ryan.

Q - Ryan Levine {BIO 19520640 <GO>}

Good morning. Given the tax incentives for RNG in your comments around higher IRRs. What are the constraints to accelerate these growth projects in your portfolio and for your outlook?

A - Jerry Norcia {BIO 15233490 <GO>}

I would say the constraint is keeping that portfolio at 10% of our overall enterprise in terms of earnings and EPS. But, what I do see with high IRRs is the greater contributions to sort of more efficient capital deployment, if you will as we see higher IRRs, so very juicy projects that that means we'll invest less capital and get the same EPS.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. And then given the large changes to LCFS prices, are you looking to evolve your hedging strategy with these projects?

A - Jerry Norcia {BIO 15233490 <GO>}

We've had a pretty strong hedging program with LCFS and also how we place some of our federal products. And we've got a combination of what I would call financial hedges against the sales as well as fixed long-term sales price that are priced, that's helping to balance any sort of fluctuations that we may get as well as we build contingency in that I plan to accommodate any positions that might remain open.

Q - Ryan Levine {BIO 19520640 <GO>}

So, given your constraint or your stated constrain around 10% of your portfolio contribution to these assets. Do you view DTE is a long-term holder of this portfolio. As I suggest that the growth prospects may be higher for somebody else.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, look at it, if we saw an opportunity to harvest and get more value than we see we're always open to that and I think we've got a long track record of doing that and non-utility businesses, we've reinvented ourselves in that space, three and four times since I've been at DTE and we've always been very successful in building these businesses and at the time presents itself and the opportunity presents itself the harvesting create incremental value for our investors, we're up for that and we're looking at that all the time.

Q - Ryan Levine {BIO 19520640 <GO>}

Appreciate the color. Thank you. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

We have no further questions. I would like to turn the call back over to Jerry Norcia for closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Well. Thank you everyone for joining us today. I'll close by saying that DTE has had a very successful third quarter and we're feeling great about the remainder of the year as well as our position for future years. I'll look forward to seeing many of you at EEL in a couple of weeks. Have a great morning, stay healthy and stay safe.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of

FINAL

any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript