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CMS Energy Corp. (CMS)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy 2018 Third Quarter Results. The earnings news release issued earlier today and the presentation used in this webcast are available on CMS Energy's website in the Investor Relations section. This call is being recorded. After the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time. [Operator Instructions] Just a reminder, there will be a rebroadcast of this conference call today beginning at 12:00 PM Eastern Time running through November 1. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I would like to turn the call over to Mr. Sri Maddipati, Vice President of Treasury and Investor Relations. Please go ahead.

Srikanth Maddipati
Vice President, Treasurer and Investor Relations, CMS Energy Corp.

Thanks, Rocco. Good morning, everyone, and thank you for joining us today. With me are Patti Poppe, President and Chief Executive Officer; and Rejji Hayes, Executive Vice President and Chief Financial Officer. This presentation contains forward-looking statements which are subject to risks and uncertainties. Please refer to our SEC filings for more information regarding the risks and other factors that could cause our actual results to differ materially. This presentation also includes non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in the appendix and posted on our website.

Now I'll turn the call over to Patti.

Patricia K. Poppe

President, Chief Executive Officer & Director, CMS Energy Corp.

Thanks, Sri, and thank you everyone for joining us on our call today. We're looking forward to Halloween next week but there are no tricks here, only treats, our predictable financial results. With that I'll begin with an overview and a focus on our triple bottom line and Rejji will follow up with more details on our financial results and outlook. With another great quarter behind us, we're pleased to report adjusted earnings of $1.93 per share through the first nine months of the year, which are up 16% from our 2017 results. We're also pleased to announce that we're raising the bottom end of our full year guidance by $0.01 with 2018 adjusted earnings guidance now at $2.31 to $2.34 per share, which further demonstrates our confidence in our ability to deliver again this year, giving us our 16th year of consistent industry-leading financial performance.

Now as I've stated previously, when we moved to 6% to 8% growth from 5% to 7%, we were signaling that we raised the midpoint of our range from 6% to 7%, showing our confidence in continuing to deliver 7% as we have for 15 years in a row. Last year, we delivered a strong 7% which was towards the high end of our 6% to 8% 2017 guidance, so we would be disappointed if we did not deliver towards the high end of our guidance again this year. We're also initiating 2019 adjusted earnings guidance at $2.46 to $2.50 per share which reflects 6% to 8% growth, no resets or surprises here. As we typically do, we'll revisit our guidance based on our actual results during our fourth quarter earnings call. And we're reaffirming our long-term growth of 6% to 8% with a bias towards the midpoint.

Slide 5 is a great reminder of how much work we're doing day-to-day, quarter-to-quarter and year-to-year to provide the consistent financial results you've come to expect. We focus on prioritizing reinvestment opportunities in periods where we experienced better than expected cost performance or weather benefits like we've seen throughout this year. In times like we saw last year with poor weather and significant storm activity, we'll rely on our lean operating system and our ability to optimize work to maximize safety and reliability for the benefit of our customers. Since 2013 we've reinvested millions of dollars at the utility, such as low income support of $24 million that helps our most vulnerable customers catch up on energy bills during hard times and reduces risk in our uncollectible accounts for all of our other customers.

Right now we remain focused on the work that can be done this year to de-risk next year while providing immediate benefits to customers such as tree trimming in the electric business where we expect to spend $54 million and our gas pipeline integrity and reliability program where we'll spend around $37 million this year. This strategy allows us to deliver on our financial results this year while providing a longer runway for us to deliver the growth you have all come to expect in the coming years. The blue line that you see on slide 5 represents the volatility that we manage year after year to ensure that you continue to experience consistent financial results shown by that straight as an arrow green line. In short, we ride the rollercoaster so you don't have to.

Our gas business is a perfect example of our triple bottom line thinking. We commit to a safe and reliable gas system, one of the largest in the country with over 28,000 miles of distribution mains and nearly 1,700 miles of transmission lines, to serve our 1.8 million gas customers. We protect our customers and the planet with every dollar we invest in our system. Our investment in the gas system will be about half of our total capital plan over the next five years. That's the triple bottom line in action. The skilled workforce serving our gas customers is a critical enabler to our ability to execute our plan.

Not that long ago, we couldn't find qualified candidates for many of the positions we needed to fill, so we started our veteran boot camp in 2016. To date, Consumers Energy has hired 116 gas workers from the program with a 94% retention rate. It's a three-week training program followed by a 90-day internship and then full time job offers. The program accounts for 47% of the talent hired into that role over the last three years. This program is far more successful than the previous hiring plans, where we typically saw a 50% failure rates for the physical dig assessment which eliminated the candidate from further consideration. In fact, earlier this month, I was at our new employee orientation and I asked for all the veterans in the room to stand. I was overwhelmed to see that over half the room was filled with those who have served our country. I am so proud to have these veterans on our team and putting their skills and knowledge to work for our company and our customers.

My coworkers are enhancing the safety of our system by replacing older services and mains that are a source of gas leaks. These necessary replacements not only improve the safety of our system, but also reduce potential methane emissions. We're proud to have reduced our methane emissions by over 15% in the last 10 years, but we are never satisfied and we have an internal methane reduction task force dedicated to improving our performance. All of this needed work requires capital at a time when the commodity price of natural gas has never been more stable or affordable. Now is the time for us to invest in our system in a way that customers can afford. Ultimately these affordable investments lead to attractive returns for you, our investors. And we're thankful for your support in enabling this work and for making Michigan safer.

Our consistency and predictability are the hallmark of our financial results every year. Part of what makes us consistent is our ability to adapt to changing external conditions. With the gubernatorial elections next month, I know many of you may wonder what will change in Michigan and for CMS Energy. Regardless of who is in office we have proven that we are able to work with everyone. When we stand for Michigan, people want to stand with us. While we can't predict the results, I can tell you we know the candidates well and look forward to working with the new governor to serve the citizens of Michigan.

As slide 7 shows, over the years we've seen governors from both parties and the makeup of our Commission change and have experienced varying economic and weather impacts as well, but regardless of all those factors we have an ability to deliver consistent financial performance year after year after year after year.

With that I'll turn the call over to Rejji.

Rejji P. Hayes

Executive Vice President and Chief Financial Officer, CMS Energy Corp.

Thank you, Patti. And good morning, everyone. As Patti mentioned we're pleased to announce our strong results for the first nine months of the year with adjusted earnings per share of $1.93, up 16% from the comparable period in 2017. On a weather-normalized basis earnings per share for the first nine months were down 6% versus the same period in 2017, largely due to the execution of operating pull-aheads over the past two quarters, given the weather-driven and cost savings upside realized to-date. Patti touched on a couple of examples already, such as tree trimming and our pipeline integrity program which deliver safety and reliability benefits to our customers.

We've also pulled ahead additional gas pipeline maintenance work, to improve the reliability of our system and minimize gas leaks while opportunistically re-financing select bonds at the parent, among other customer and employee initiatives to de-risk 2019. For the third quarter we reported earnings per share of $0.59 this year compared to $0.62 per share for the third quarter of 2017.

As noted, given our solid performance to-date, we have raised the low end of our 2018 adjusted EPS guidance range and our revised range is now $2.31 to $2.34 per share. All-in, we are well ahead of plan and we'll continue to look for reinvestment opportunities in the fourth quarter including both operating and non-operating pull-aheads to improve our likelihood of success in 2019 and beyond.

As you can see on the waterfall chart on slide 9, weather has positively impacted our year-to-date results by $0.42 per share, with more than half of that coming from last year's poor weather rolling off. As you'll note, the cost savings bucket has shrunk from $0.10 per share of positive variance through the second quarter to $0.03 per share for the first nine months due to the aforementioned reinvestment strategy and heavy storm activity. But we continue to see lower benefits expense and other operational efficiencies. The weather and cost performance related upside have also been supported by $0.06 of higher rate relief net of investment costs relative to 2017. These sources of positive variance have been partially offset by the absence of favorable tax benefits realized in the third quarter of 2017 and by lower non-weather sales, largely driven by our expanded energy efficiency programs. It is worth noting that reductions in customer usage attributable to our energy efficiency programs are trued up in rate cases through updates to our sales forecast.

Given our sizable reinvestment opportunities this year, we have highlighted some of those levers that we have already pulled and some that are in process in the table on the right-hand side of the chart. But needless to say, we always proceed with caution in this regard particularly late in the year in the event we have mild weather and/or unforeseen storm activity, among other risks. As we look ahead to the balance of the year, we are not awaiting any further regulatory outcomes in 2018 given the recent uncontested settlement of our gas case in August with an $11 million revenue increase and a 10% ROE. So, as mentioned, we will be acutely focused on operating and non-operating pull-aheads for the balance of the year to the benefit of customers and investors.

As we turn the page on the regulatory calendar for 2018, we continue to parallel-path three major items. There is our pending electric case where we filed a revised revenue request of $44 million as part of rebuttal, down from $58 million largely due to a decrease in contingency estimates for select capital investments and lower realized debt financing costs. As always, we are eager to pass on these savings to customers to minimize the amount of our rate requests. We expect a proposal for a decision or PFD from the administrative law judge in late December, and a final order from the Commission in March of next year absent a settlement.

In regards to the IRP, we're in the evidentiary phase of the process. The MPSC staff and other intervenors recently filed their testimony in mid-October, which we found largely constructive. And we expect the final order from the Commission around the second quarter of next year.

Lastly, we'll look to file our next gas case with a revenue request of about $245 million which reflects our continued prioritization on safety and upgrading our gas system while we remain in an environment of historically low natural gas prices.

Slide 11 highlights some of our key gas infrastructure projects and the significant investments we will continue to make to improve the safety and reliability of our gas distribution system. We have steadily ramped up our focus and spend in this area by building a skilled and dedicated workforce as Patti noted by identifying and prioritizing key areas on our system that are in need of upgrading and by finding ways to offset much of the bill impact to customers by capitalizing on low natural gas prices and through other cost reduction initiatives. As part of our pending gas rate case filing we plan to replace approximately 25,000 vintage service lines and roughly 140 miles of distribution mains, among other programs. We're also planning to inspect and remediate as necessary over 950 miles of pipeline. It is worth noting that many of these maintenance and inspection programs that we have in place are routine annual activities and have been incorporated in previous investment recovery mechanisms or trackers approved by the Commission. Lastly, we'll be extending our capacity to deliver gas on our system to accommodate customer requests and future load growth.

Slide 12 illustrates our emphasis on gas as evidenced by our five-year capital plan of $10 billion, roughly half of which is comprised of gas infrastructure investments. We continue to focus on the needs of our aging gas system as reflected in the forecasted material increase in gas as a percentage of total rate base to 40% from 30% over the next five years, as highlighted in the chart on the right-hand side of the page. The balance of our five-year capital plan consists of substantial electric distribution investments in accordance with our five-year electric distribution plan filed in March and increased investments in renewable generation as per our Integrated Resource Plan or IRP.

Our capital investment needs remain significant beyond the five-year period as well. As we work through regulatory proceedings and our financial planning cycle, we expect that the longer term capital mix will continue to evolve and we look forward to providing an update to our 10-year capital plan in 2019 once we have better visibility on our long term capacity plan.

As we've highlighted in the past, the primary constraint on the pace at which we invest capital is customer affordability and we are confident that we can continue to deliver cost reductions to minimize customer bill increases. On the gas side, our numerous capital investment programs will enable reduced maintenance costs on items such as leak repair among other benefits. Reduced gas, O&M costs coupled with our expectation of relatively flat natural gas prices that are minimized through our purchase and storage strategy, among other cost reduction initiatives should keep customer bills affordable. We've experienced such success in the past as evidenced in the chart on the lower right-hand side of slide 13. Since 2013, our gas bills have declined by over 25% relative to inflation, despite approximately $4 billion of aggregate investment over that period. In the electric business, we will benefit from high priced, power purchase agreements rolling off over time while also realizing fuel and O&M expense savings as we retire our coal fleet.

Our power supply related savings will be supplemented with continued electric system upgrades, which will reduce service restoration expenses, among other benefits. For the consolidated entity, our efforts on waste elimination through the CE Way continue to bear fruit across the organization and we continue to benefit from attrition management and non-operating savings from opportunistic re-financing and tax planning. Speaking of taxes, on October 1, we filed a proposal to return approximately $1.6 billion of deferred taxes from utility customers over the next several decades, in accordance with the federal tax code.

As a reminder, the total impact of federal tax reform will deliver an estimated 4% rate reduction opportunity, and every 1% reduction in customer rates generates about $400 million of incremental capital investment capacity for the benefit of customers and investors. As we look prospectively at the consolidated business, unsurprisingly, our growth continues to be driven by our utility with its robust capital needs on both the gas and electric systems, and forward-looking filings such as the IRP and our five-year electric distribution plan provides long-term transparency for the MPSC and other key stakeholders, which should provide more visibility regarding regulatory outcomes in the future.

Outside of the utility, we'll continue to operate our existing Enterprises fleet with a low-risk mindset and take advantage of attractive, contracted renewable opportunities like the recent wind PPA with valued customers like GM. When we couple our utility earnings contribution with contracted non-utility growth and prudent financial planning, you can see why we have confidence in our ability to continue to grow at 6% to 8% over the long term.

And with that I'll turn the call back over to Patti.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

Thanks, Rejji. In summary, our investment thesis is driven by a large and aging system in need of capital investments, a growing and diverse service territory, a constructive regulatory statute, a unique self-funding model that is enhanced by the CE Way and tax reform and a healthy balance sheet to fund our plan cost effectively. We are confident in our ability to deliver consistent industry-leading growth and superior total shareholder return over the long term as we do the worrying for you and adapt to changing conditions.

With that, Rocco, please open the lines for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you very much, Patti. The question-and-answer session will be conducted electronically. [Operator Instructions] And our first question today comes from Michael Weinstein of Credit Suisse. Please go ahead.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hi, Michael.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Good morning, Michael.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. What's the – sorry if I missed this. But what's the base that the 6% to 8% for 2019 is based off of?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah. So, Michael, we at this time of the year, when we give guidance in Q3 it's always predicated effectively on the midpoint of our revised guidance, and so as Patti noted our revised 2018 guidance is $2.31 to $2.34 per share and so that's what it's driven off of, but as you know as we get actuals over the course of the fourth quarter and provide our fourth quarter earnings call we'll likely revise that number.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it, got it. That's off the midpoint now of the end in other words, right?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Precisely.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Right. And then can you just give us kind of an overview of what you intend to update at the EEI this year? What are the categories of things that will be updated at that point?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah. It should be more of the same, Michael. I mean, we generally try to avoid surprises and so if I could characterize some of the topics that will likely come up, we'll talk a bit more about the progression of some of our regulatory items. So there is the pending gas case which should be filed at that point. There's the electric case which continues to progress, and then there is the IRP which is in the evidentiary phase, so we look forward to providing updates on that.

Always happy to talk about the capital mix and what we're seeing there and then opportunities to continue to save costs and reduce our cost structure to perpetuate the self-funding strategy. So those are I think the variety of topics we'll cover and we'll have visibility at that point as well on the electoral front and what's taking place on the political side in Michigan. So I think all of those will be things we'll cover, but I don't expect a whole lot new beyond that.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Are there any significant impacts that you perceive from the election, that goes one way or the other or do you expect you'll work well with no matter who wins at this point? And one thing I've heard is that the property tax might become an issue in the Legislature during the potential lame duck session, is that something that you understand?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. So there's is a couple of things. First on the elections themselves, as we said, we're very comfortable with either gubernatorial candidate. We do have term limits in Michigan, so it does result in a lot of turnover in the House and the Senate. But the good news is we passed that statute in 2016 and with large bipartisan support, so the idea of revisiting that would be a pretty long thought, I would suggest. But the new governor will obviously be able to appoint a new commissioner when Norm Saari's term ends mid-year next year. And the way the statute is written that establishes our Commission and our commissioners and their term really prevents what I would describe as shenanigans as a result of elections. We are very comfortable with the terms in statute, the number of parties represented on the Commission is in statute, so the idea that the new governor would replace Norm is very predictable. And they are six months into their new term and so we'll have an opportunity to help understand what the requirements and needs are of that new commissioner.

So we're just not too concerned with any effect of the elections. On the property tax....

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

Property tax? Yeah.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

We – yeah, we've been working with the Senate, they passed a bill proposed on what's called PPT, personal property tax. And in Michigan, when the Michigan tax reform happened I think back in 2012 the utilities were exempted from the reform on PPT. And so we're suggesting that future increases would be capped. And so we're working on that. I think it will be good for customers. When we think about the cost stack for customers, taxes are in there. So any time that we can reduce the tax liability actually for our customers, it's good for Michigan. So that's why we're working on that. I wouldn't hazard to guess of whether it will or won't pass, but it is something that we think will be good for customers so we're for it.

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

Got you. Okay, thank you very much.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Thank you.

Operator: And our next question today comes from Jonathan Arnold of Deutsche Bank. Please go ahead.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.
Q

Good morning, guys.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Good morning, Jonathan.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Good morning, Jonathan.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.
Q

Good to know that you're riding the rollercoaster for us, so just thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

That's right. Rest easy, Jonathan.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.

Q

A question, Rejji, you mentioned that you would potentially – I forgot the exact word you used but you would perhaps update the 10-year capital plan next year once you have some of the regulatory proceedings further along. Are you talking about sort of rolling it forward because it will be further out in time, sort of fleshing it out or potentially that might change in some quantitative fashion?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah. So it's a little of both. It would be a roll-forward of the timeframe but also we would likely increase the capital plan. And we just don't know the extent to which we'll increase it. We talked about in the past the benefits of tax reform and how it's created incremental capital investment capacity to the tune of about $1.6 billion but we also think that the IRP as well as other capital investment opportunities across the gas and electric distributions create opportunities as well. And so we know that there's a nice backlog of capital investment, but as I said in the Q2 call, we want to make sure that we can afford, and I say we, meaning our customers as well as our investors on the balance sheet, can afford to accommodate capital investments. Let's say something in excess of $18 billion which was the old plan. And so we want to make sure we get the math right and also get visibility on some of the regulatory proceedings that I covered. So that's really the gating item and what we'll effectively cover with the new capital plan.

Jonathan Philip Arnold
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That was really all I had. Thank you.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Jonathan.

Operator: And our next question today comes from Stephen Byrd with Morgan Stanley. Please go ahead.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning and congratulations on continued good results.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Thanks, Stephen.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Stephen.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

We've had a – we had a terrible explosion in the Northeast earlier this year and I was just curious if there were any lessons learned or any changes in thinking in terms of gas safety spending or any other sort of operational adjustments you would make or updates you'd make based on lessons that may have been learned from those explosions?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. Thanks for asking, Stephen. Obviously that was a serious situation and we've been very closely linked. In fact, we have about 30 folks who are out in Massachusetts right now assisting. I understand they're going to be coming home safely to us today, so we're wishing them a safe trip home, but we've looked closely. Our system configuration has one distinct difference between medium and standard pressure. We have relief valves that would prevent in an over-pressurized situation over-pressurizing that low pressure system. And so we do think that is an important feature that we have designed into our system.

I would say from an investment standpoint, however, it is the enhanced infrastructure replacement program, which is our investment recovery mechanism for gas investment for our mains and now our vintage services is critical to this part of the system. And so we would – in fact a couple of years ago, we established our own public safety goal, a breakthrough goal that we've been working to replace more vintage services. And we do more inspections than are required by PHMSA on both high consequence and non-high consequence areas just because we know the safety of this system is so important. And given the commodity prices now, customers more now than ever can afford these investments to make the system safe.

And it's really a unique point in time where we can do the right thing for the system and we don't have to trade off affordability for the magnitude of investment that we're doing. And so again we're thankful for our investors who make it possible to do that work here in Michigan.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

That's really helpful color. And Patti, is it your sense that the gas utility industry as a whole is going to respond with a number of proposed changes that could sort of result in a wave of updates of spending or is this more sort of each utility is going to approach this based on their own sort of unique circumstances. How broad I guess is my question in terms of updates or changes that you see from the industry as a result of these explosions?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

I think there could be revised regulations, particularly as it relates to PHMSA and remotely controlled valve configurations. Right now, a lot of times on our distribution systems across the country, it's not remotely controlled. We might have monitoring in place, but we can't control. And so there might be some potential regulations that would result in added investment across the country and across the system.

I think for us when we think about our 6% to 8%, it will fit into our existing capital plan. I don't think it changes anything about our outlook. We would be prioritizing obviously safety as always number one in investment prioritization and meeting all regulatory requirements. So I think, again, it all hinges on the fact that safety is the overriding priority and potentially new regulations I think are possible, Stephen.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

That's really helpful. And if I could, maybe just one last one on electric vehicle infrastructure. Patti, I was just curious if you would mind giving us your latest thinking on the pace of that spend, the sort of the regulatory steps or any other sort of thoughts you might have about how you're going to roll out EV charging infrastructure?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yeah. And so, you know this is a near and dear subject to my heart, Stephen, as the co-chair on the EEI Electric Transportation Committee. I have been obviously paying close attention nationally, but here at home we filed for $7.5 million infrastructure for EV in our latest electric rate case. The Commission did a great job of convening parties ahead of that filing so we could have some alignment about it. And so I'm thankful for their hard work on that and the conversations that occurred ahead of our filing. We feel good about it.

But as I've shared with you, Stephen, and with others, the idea that electric vehicle infrastructure is a huge capital play, I don't necessarily agree with that. I do think that it's an important component of the electrification strategy and as long as EVs are not charged on peak then it net and net reduces the unit cost of energy for all citizens. And so, there is benefit for all for enabling the EV infrastructure. But I'll tell you, in the Detroit Free Press, there was an editorial this week or maybe it was Crain's in Detroit, there was an editorial of a guy who bought an electric car and all his angst of getting around Metro Detroit to get charged and in fact he had his wife following him in his car so he didn't run out of charge. So there's infrastructure required for sure. It hit the press this week. And so I'm sure we'll have continued support to get that infrastructure built out. And faster is better, emission-free vehicles fueled by emission-free power is really our long-term vision.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

Very good, thank you very much.

Operator: And our next question today comes from Greg Gordon of Evercore. Please go ahead.

Greg Gordon
Analyst, Evercore ISI
Q

Thanks. Good morning, guys. Hi, Patti.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Good morning, Greg.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Good morning, Greg.

Greg Gordon
Analyst, Evercore ISI
Q

Most of the – I think that the hugely salient questions have been answered. At EEI are we going to get a 2019 visibility on what you're thinking about DIG?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Greg, this is... So, you mean in terms of whether it would be in the utility or just performance, I want to be clear...

Greg Gordon
Analyst, Evercore ISI

Q

No. I mean, slide 22 has the 2018 guidance and then the aspirational guidance.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

[indiscernible] (00:31:57)

Greg Gordon
Analyst, Evercore ISI

Q

But it doesn't give us insight into what you're actually seeing and how it's contracted or what you expect market revenues to look like for 2019?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah. So we generally have pretty conservative assumptions around capacity sales of DIG which do make up a decent portion of its revenue. But I'll say that the majority of its revenue is already locked in through energy sales forward through 2023. And so we tend to believe that there will continue to be a little bit of softening on the front end of the bilateral capacity mark and so we have pretty conservative assumptions around kilowatt per month assumptions.

And then generally, because of the pace at which I'll say the decision around the local clearing requirement in Michigan is progressing where we're now filing an appeal from the Court of Appeals decision that the Commission didn't have an authority to set the local clearing requirement, we think it's going to be a while before you see outcomes like we're highlighting on the right-hand side of that chart where you're seeing $4.50, $7.50 per kilowatt month.

And so I'll say our expectations are tempered, but as you think about our 2019 EPS guidance of $2.46 to $2.50 per share, we generally – I think we'll get about $0.01 of contribution from enterprises that supports that growth. And so, we do still expect decent growth from enterprises, but we're pretty tempered in expectations around capacity sales. Is that helpful?

Greg Gordon
Analyst, Evercore ISI

Q

Yes. Thank you very much. And then the economic conditions and market conditions, interest rates, etcetera. Obviously they don't really have a direct impact on how you plan for the utility, but can you tell us what's going on EnerBank and whether – I know it's also a very small contributor. But the bank stocks have been behaving, like economic conditions for their business have worsened. I just wonder what you're seeing there.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah, I'd say in general EnerBank continues to perform well. And so we assumed in our guidance for 2018 about $0.15 of contribution from EnerBank. We think they are in that zip code. I will admit that the competitive environment has intensified a bit in that sector. And so we are feeling a little bit of pressure associated with that. But if you look at the quality of their portfolio in terms of average FICO scores, the annual growth and then our expectations going forward we still think the business will continue to perform as it has in a variety of different cycles and so EnerBank continues to trend along nicely and we haven't seen much erosion in terms of the portfolio FICO scores or any of that stuff you see when competition intensifies.

Greg Gordon
Analyst, Evercore ISI

Q

Thank you. Have a good day. See you at EEI.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Thanks. See you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Greg.

Operator: And our next question today comes from Andrew Weisel of Scotia Horward Weil. Please go ahead.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Thanks. Good morning, everyone.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hi, Andrew.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Question for you on the reinvestment. There is a lot of detail and a lot of impressive numbers here with the $0.24 that you flagged down the waterfall chart on page 9. My question is when I think about reinvestments relative to weather it looks like versus normal the weather year-to-date impact has been around $0.20 benefit. So maybe you could talk a little bit about the budget perspective there of where those extra $0.04 are coming from and I believe that's outside of cost savings, maybe you could just elaborate a bit more on some of those reinvestments and how that might impact 2019?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah. So a couple of things I'd say. So we're obviously at this point of the year we're well ahead of plan. I'd say we're over $0.20 ahead of plan and so we have been busy putting a lot of dollars to work as we have, really starting in Q2 once we had a very nice winter for the gas business earlier in the year and then a very early start to the summer. And so with that upside, we've put quite a bit to work and so that $0.24 that you see on the right-hand side of slide 9, it represents spend that we put to work in some regard and then spend to come and so we expect by the fourth quarter you'll see a pretty significant expansion of operations and maintenance spend attributable to those pull-aheads and so that offers a couple of benefits.

So one, obviously it reduced potential costs in 2019. That's the definition of pull-ahead. You're spending money now that you won't have to spend next year, so there's risk mitigation in that. But also if you think about the bridge, that allows us to grow another, let's say, $0.16 or thereabouts. When you think about our guidance in 2018 versus our guidance in 2019, those are now all sort of discretionary, I'll say items that we're pulling ahead this year that we may not have to go and do next year. And so when you think about the path to delivering another year of 6% to 8%, you're going to lose the benefit of $0.20 of good weather that we had in 2018 and we plan for normal weather, but that will be offset by rate relief net of investments which should give us about $0.10 to $0.14 of upside based on our expectations. You'll get about as mentioned about $0.01 from enterprise, about another $0.01 from EnerBank for growth and then you're going to have about $0.24 of discretionary activities you took on in 2018 that you don't need to take on in 2019 and so all of that should bridge us very nicely to a very good glide path of 6% to 8% growth.

Andrew Weisel Q
Analyst, Scotia Capital (USA), Inc.

Got it. That's very helpful. Thank you.

Rejji P. Hayes A
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

Thank you.

Andrew Weisel Q
Analyst, Scotia Capital (USA), Inc.

This might overlap with that question, but the same waterfall chart, usage, enterprises and other year-to-date is down $0.24 year-over-year, but when I look at the reconciliation at the end, it looks it looks like enterprises are kind of flat and corporate and others kind of flat, so I can't imagine $0.24 of usage impact. Maybe you could elaborate what else is going on in there?

Rejji P. Hayes A
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

Yeah, there's quite a bit and it's a bit of a catch-all, but I will say that $0.24, about half of that is usage, so call it $0.13 and that's because we have seen at least a little bit of softening in our non-weather sales performance. But it's interesting. I think the data that we highlighted are – effectively the last page of our supporting financial document is a touch misleading because it's weather-normalized, which is an imperfect science. And so just to go through the numbers, when it comes to non-weather sales we're about 0.5% down year-to-date, but remember not only is that math weather-normalized but it's also shown net of energy efficiency.

And so if you think about the programs we have in place for energy efficiency, we're compensated to reduce customer usage about 1.5% from the prior year. And so if you gross up that 0.5% for the effects of energy efficiency, we're actually up about 1% percent. And then within the customer classes we actually see pretty favorable mix which has been the trend we've seen over the course of the first three quarters. So residential is up about 0.5%, again weather-normalized net of energy efficiency. And so when you gross that up, we're actually up about 2% year-to-date, and that's higher margin of course of our customer classes.

Commercial is flat year-to-date and so if you gross that up, again we're up about 1.5%. And then admittedly the laggard has been industrial which is our lowest margin portion of customers and that's down over 2%, but grossing that up it's down about 0.5%. So I'd say industrial is the one place where we've underperformed and that's what you're seeing, and some of that customer usage, that's flowing through that $0.24. But even within that I think the key question you ask on the industrial side is, are underlying economic conditions in our service territory softening, and the quick answer to that is we don't believe so. We continue to see good economic factors in the Grand Rapids area which is in the heart of our service territory and I always look at the cycle billed sales particularly in our most energy intensive segments within again our electric service territory. So food manufacturing is up year-to-date about 9%, so that's trending quite well. Transportation equipment is up approximately 6% and then fabricated metal products is up over 4%. And so again some of our most energy intensive sectors within our service territory continuing to trend quite well and so I still think the economic conditions are quite good and so even though we've been a little disappointed in non-weather sales I think there's a nice comeback story and so we continue to do well and we expect the future will look quite bright as well.

The other thing that's in that $0.24 and then I'll pause and breathe is that we have the absence of a tax benefit that we realized in Q3 of last year. That was about $0.07 and so that is obviously no longer flowing through and that's what's impacting the comp. So if you take the absence of the tax benefit coupled with non-weather sales, those two really represent the vast majority of that $0.24.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Great breakout and certainly good from a mix perspective when you talk about the different customer classes. My last question is the rate case filing coming up early next year. I believe you set a $245 million rate increase but with a bunch of offsets. Can you maybe elaborate a little bit of maybe what the total impact to customer bills might look like and how much of that comes from the lower commodity versus cost cuts versus whatever else might be in the plan?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah, so we're still finalizing the case but we do think obviously on a base rate perspective before you take into account the commodity costs you are going to see an increase in base rates. We're still working through that math. But when you do take the commodity costs into account we do think that you'll probably see a customer bill impact that may be a little higher than inflation case relative – for this case relative to the last case. But at the end of the day the impact on customers' bills particularly the residential level is about $2 per month or something of that zip code. So at the end of the day, not material increases for customers.

And when you think about the benefits of those capital investments, as Patti highlighted we prioritize safety and reliability and so we do think it's certainly worth the cost to make sure that we're being very proactive in our pipeline maintenance as well as our vintage service programs and enhanced infrastructure replacement program. So we think the cost is certainly worth – first, we don't think the cost is a great deal, but we think the benefits certainly exceed the cost.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Sounds great. Thank you.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Thank you.

Operator: And our next question today comes from Julien Dumoulin-Smith of BoA Merrill Lynch. Please go ahead.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Hey. Good morning, everyone.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Good morning, Julien.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Good morning, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Hey. So I wanted to follow back up on the IRP filing here and I know we've chatted about it a little bit. Just wanted to talk a little bit more with respect to, A, just logistically the timing of when you think in 2019 you'll come up with the next update. If I look, right, like the second quarter 2019 with an order there you would imagine you'd be in a position by third quarter to get an update there?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Julien, we'll see. I mean, obviously we expect to get a decision, we're going to get a decision within 10 months. So that will be in the April timeframe and then we get an opportunity to react to that and so we should get a resolution on the IRP in June of next year, but we'll also get some visibility prior to that. And so I don't want to sit and represent that we'll provide guidance on a new capital plan in Q3, maybe sooner than that and then we'll also have to see how things are progressing with our pending cases. And so I think it's a variety of things we'll have to see on the regulatory front that will dictate the timing. I would like to think it's Q3 at the latest, but it may be sooner than that. So we'll see.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Excellent. And can you elaborate a little bit more about some of the nuances of the IRP doc a little bit, maybe some of the changes and how you think about the needs assessment moving around. And I suppose, if you will, like any of the nuances that you'd be paying attention to there?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Well, we're very excited about the IRP, Julien. It's a great construct the way it's designed. So we filed the IRP this fall where, and as Rejji mentioned 10 months out we'll get early indicators from the Commission on the record and then we have 60 days to respond and we could make adjustments. What we filed in our IRP has very little financial impact in the first three years of the IRP. But it does include an important resolution to PURPA here in Michigan and setting of avoided costs per PURPA is important across the country. But the Commission has stated clearly and reiterated most recently that the IRP is the vehicle that they will use to establish a mechanism for setting avoided costs for PURPA qualifying facilities and for establishing whether a utility has a need, therefore qualifying facilities would be added to the system.

And so our competitive bidding proposal combined with the financial compensation mechanism or earning on a PPA will get concrete feedback from the Commission through this filing and so we're looking forward to hearing that. The staff's position recently published shows support for the thinking. Of course there's a range in the financial compensation mechanism between the staff's position and our own, but that's not unlike a range in an ROE between the staff position and the company. There's a process and potentially a settlement on the table to be able to come to resolution on that issue. So we're excited about what it holds for Michigan and we're excited about the future because of what we've been able to publish through that IRP.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. Right. And so I think I just heard it from you, you think you could settle that issue?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

It's possible. You know settlements are hard sometimes, particularly in this IRP there is a lot of parties, there is a lot of people engaged. I think we have a proven track record on settlements. But this one would be complicated, and frankly the 10-month time clock is just fine with us. And so I would say I wouldn't put in over or under on that. I would just suggest that we'll work toward a settlement, but if we can't get one we're very comfortable going to a Commission order on the IRP.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Yeah, excellent, all right. All the best, guys.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Thanks a lot, Julien.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Julien.

Operator: And our next question today comes from Praful Mehta of Citigroup. Please go ahead.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Thanks so much. Hi, guys.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Hi, Praful.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning, Praful.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. So again lots of questions answered which is great. I guess I wanted to touch on the weather impact and weather-normalized, clearly there is like on slide 8 I see $0.47 versus the $0.59 that you had with the weather benefit. I guess given the rising temperatures and the impact of just some form of continuous increase in heat, is the definition of weather-normalized something that will change, you think, over time and does that impact you guys at all if the assumption of load just changes given weather. Is that something you think about?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Well, certainly I have been critical in the past of just the calculation itself. I think as I've said before it's a very imperfect science to weather-normalize, but I don't think the work we do to weather-normalize our performance or across the sector will change anytime soon and obviously when it comes to planning we do plan for normal weather and when we say that, we look at the last 15 years and so we don't just take a couple of years, we look 15 years, over a decade, around a decade and a half of weather trends to make sure we're thinking the right way about our plans for the future and so you know, yes, we've been wrong and we've outperformed in some cases. In some cases, we've underperformed and that's what averages represent. And so, again, we feel like we have a pretty long-term point of view when it comes to weather normalization. And we'll try to be mindful of the near-term trends, but not overreact to them. Is that helpful, Praful?

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Yeah, no, that is. But I guess what I'm also thinking about is if the definition changes as and if the weather-normalized number just goes up over time, is that an impact to you guys from an earning potential perspective given the denominator that the regulators use to kind of define rates just goes up?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Praful, I would suggest that if you look back, you don't even have to go back as far as 2015 or 2014. You see dramatic weather differences, the opposite direction. So it really is not – I wouldn't suggest that average temperatures are rising. I would suggest that there is temperature variation and we can see that in our actual results over the last couple of years. You don't have to go far back to see a mild winter and a hot summer or a mild summer and a hot winter because we're gas and electric. Weather has a longer-term effect on us and sometimes evens itself out between the two commodities.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

And the only other thing I'd mention, Praful, is remember when we file our rate cases we do take into account sales forecasts and because of the nature or pace at which we file, which is really on a serial or annual basis, we do reflect our latest sales forecast. And so you just have that natural true-up or correcting mechanism every time we file rates and get rate orders.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.
Q

Yeah. No, that's a great point. Thanks for that. And I guess just quickly, it won't be complete without a question on EnerBank. You already mentioned EnerBank is performing pretty well even through this at least uncertain time for banks. I guess, is there any view that if CapEx plans increase and the opportunity to grow the utility side increases, again, I'm just asking the strategic question, the fit on EnerBank and if that is something that would be considered at some point?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yeah. As we've said before, Praful, EnerBank, nothing has changed with our point of view on EnerBank. It is in the same place that it has been. We don't put additional dollars into EnerBank itself growing and it plays its role in the system. Someone would have to pay the right price for us to sell EnerBank.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.
Q

Fair enough. Well, I appreciate it. Thank you, guys.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yeah. Thanks, Praful.

Operator: And our next question comes from Travis Miller of Morningstar. Please go ahead.

Travis Miller
Analyst, Morningstar
Q

Good morning. Thank you.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.
A

Good morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Good morning, Travis.

Travis Miller
Analyst, Morningstar

Q

I was wondering on the electric case, you talked about the settlement and possibility of IRP. What about a settlement possibility in the electric case and how far apart do you think you are in terms of reaching a middle point for a possible settlement.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

So we have been having, in fact I think we have another iteration today and so we've had very productive settlement discussions to date. And when we think about the numbers where we are right now, as I mentioned in my remarks, we're at $44 million of deficiency. That presupposes a 10.75% ROE, the staff's at almost a $100 million difference at $44 million sufficiency. And so when you think about that delta of $100 million, it seems like you could drive a truck through it. But if you normalize for ROE and just go to the current ROE and I'm not conceding that 10.75% is not what we think the ROE should be, but let's just say you hypothetically do that math, you close the gap about $60 million. And then if you take capital structure into account, we're at 52.5%, I think the staff is just under 52% and kind of normalize that to where it is currently across gas and electric, that gives you another almost $10 million.

And so you normalize for current ROEs and current capital structures, you close the gap pretty materially and so because of that, we are cautiously optimistic that there could -- that we could settle but as Patti highlighted in the context of the IRP, any of the electric-related proceedings are quite complicated, there are a lot of moving pieces and there are a lot of interveners and so we are cautiously optimistic but much too early to spike the football at this point so we'll see where we go.

Travis Miller
Analyst, Morningstar

Q

Okay. Great. And then you talked a little bit here about regulatory outcomes in the near term could impact your capital spend outlook. What is that kind of if you get a good decision, what does that mean? If you get a bad decision, what does that mean just in terms of range of potential capital plans over the 5-year or 10-year period?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Yeah. So I think the absolute amount of capital investments we have whether it's 5 or 10 years, I think that we'll certainly on a five-year basis remain consistent and so right now we're kind of just over $10 billion across the next 5 years. What will change as a result of regulatory outcomes is potentially the composition of that quantum of capital that we plan to invest over the timeframe and so for example if we see – I don't foresee this, but let's say we get a gas outcome that we view as suboptimal, well then that may increase our emphasis on some of our renewable investments or potential electric distribution investments and vice versa.

And so it really is a function of how we're trending on the various regulatory fronts which could change the composition of the capital investment program but not so much the quantum. And then as I think longer term, then obviously the quantum could expand as I highlighted earlier and so we think we'll certainly be above the $18 billion, 10-year plan that we proposed in our September of 2017 investor conference and so that number will come up, will go up, but again it's a function of how we trend in the longer-term items such as trackers, the IRP and so on.

Travis Miller
Analyst, Morningstar

Q

Okay, great. Appreciate it.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Operator: And our next question today comes from Vedula Murti of Avon Capital. Please go ahead.

Vedula Murti
Analyst, Avon Capital

Q

Good morning.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Good morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning.

Vedula Murti
Analyst, Avon Capital

Q

I apologize if you addressed this. You may have, I think, in your discussion with Julien, but what's your current feeling about the prospects within the IRP process to achieve the type of tracker that you've been seeking? As I recall, I think the initial staff testimony was not particularly supportive of what you were requesting if I'm correct about that? If you could please address that?

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

So, Vedula, are you referring to a tracker or is it – because we don't really have a tracker embedded in our IRP, is it some other aspect of the IRP [indiscernible] (00:53:51)?

Vedula Murti
Analyst, Avon Capital

Q

Oh, then, I apologize if it is outside the IRP, I was referring specifically to the tracker, capital tracker.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

The five-year....

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Maybe you're describing the five-year distribution tracker we filed for in our electric rate case?

Vedula Murti
Analyst, Avon Capital

Q

Yes.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

So, again as Rejji was just describing, we're working towards a settlement on that. There is – we've had a lot of regulatory filings in Michigan as a result of the energy law in 2016, not necessarily rate filings, but regulatory proceedings and so there has been a desire to find a way to go in less often. And so we offered to stay out of rate cases for a couple of years with the implementation of this long-term tracker on our distribution system.

It's a $3 billion proposal. That's a pretty big ask for the Commission to approve all of that spending. So we're not, I wouldn't put my bets on getting that full tracker approved. The staff has expressed our concerns about that full tracker, but perhaps a portion of it much like our gas, in our gas cases, we have an enhanced infrastructure replacement program tracking mechanism and that has worked out very well. It allows us to do longer term contracts with our contract providers. We're able to do a work plan that's more robust and reliable.

We can eliminate waste in the system because we can plan ahead more effectively. So we're a fan of that kind of tracking mechanism. And we think that the detail provided in our five-year distribution plan was sufficient to support and maybe a portion, maybe it would be substation maintenance or maybe pole replacements or something like that as a first step toward longer term getting to a full capital tracker. But certainly we support the idea of the full capital tracker, but I wouldn't expect that it will fully be approved.

But just keep in mind that just means that we continue to come in annually like we do. We have good outcomes from our regulatory filings and we're continuously improving our quality of those filings and we've seen good outcomes, and we feel good about going in annually if we need to, to make sure that we can make the necessary investments on behalf of our customers, and pass along cost savings that we realize throughout the year.

Vedula Murti
Analyst, Avon Capital

Q

So you seem to be expecting that you could achieve a portion of this, but that it would still entail probably coming in annually as you have been?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yes.

Vedula Murti
Analyst, Avon Capital

Q

Okay. Thank you.

Rejji P. Hayes
Executive Vice President and Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yes. Thank you.

Operator: And this includes the question-and-answer session. I'd like to turn the conference back over to Mrs. Patti for any closing remarks.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

Thanks, Rocco. Thanks again, everyone, for joining us this morning. I wish you all have a very safe Halloween. And we look forward to seeing you at EEI.

Operator: This concludes today's conference. We thank everyone for your participation. You may now disconnect.