

CMS Energy Corporation NYSE:CMS

FQ2 2024 Earnings Call Transcripts

Thursday, July 25, 2024 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.62	0.66	▲6.45	0.75	3.33	3.59
Revenue (mm)	1712.21	1607.00	▼(6.14 %)	1883.90	7968.43	8235.56

Currency: USD

Consensus as of Jul-25-2024 1:35 PM GMT

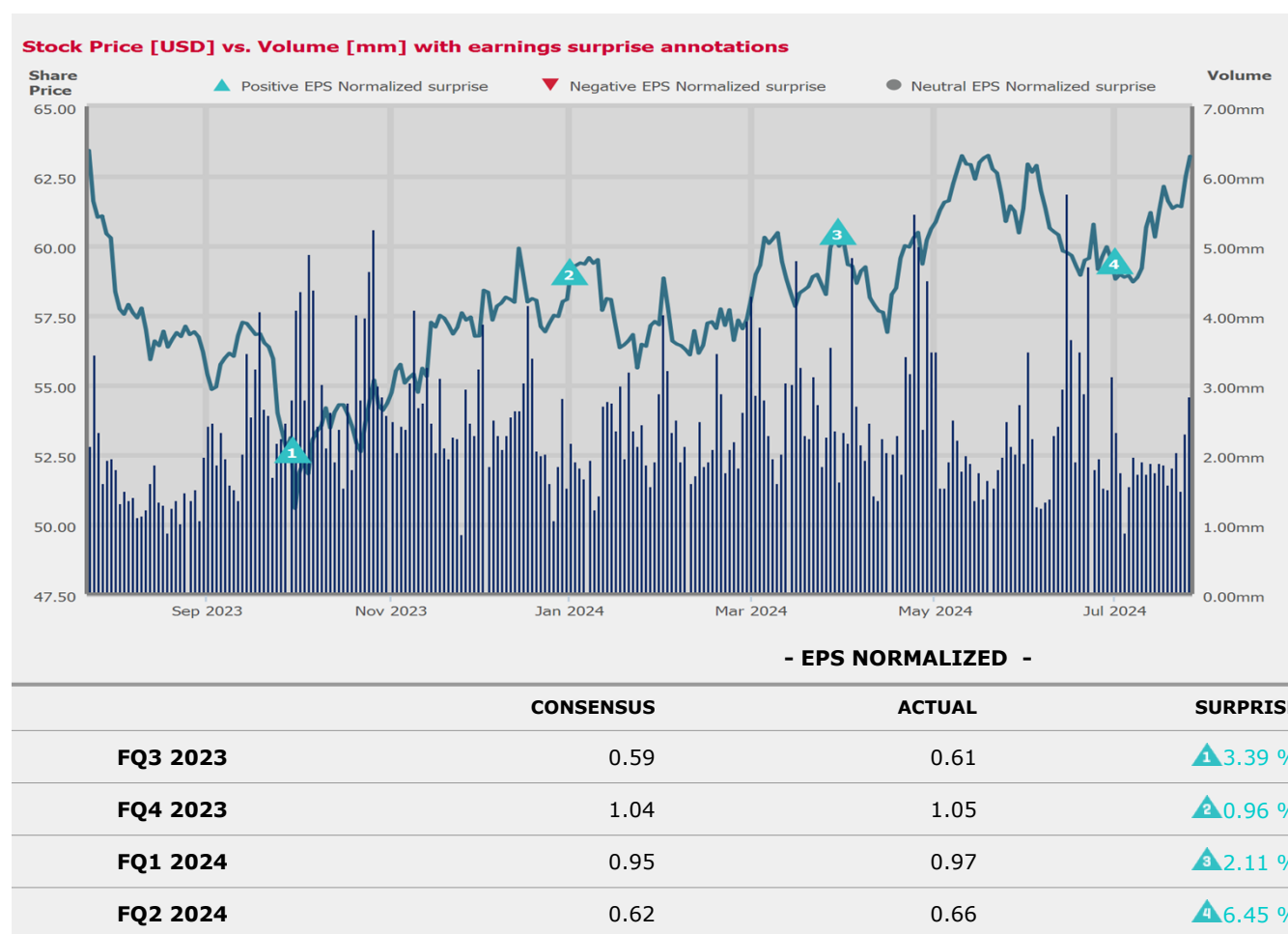


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Call Participants

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Presentation

Operator

Good morning, everyone, and welcome to the CMS Energy 2024 Second 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. [Operator Instructions]

Just a reminder, there will be a rebroadcast of this conference call today beginning at 12:00 p.m. Eastern Time, running through August 1. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I'd like to turn the call over to Mr. Jason Shore, Treasurer and Vice President of Investor Relations.

Jason M. Shore

Treasurer & VP of Investor Relations

Thank you, Harry. Good morning, everyone, and thank you for joining us today. With me are Garrick Rochow, 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.

And now I'll turn the call over to Garrick.

Garrick J. Rochow

President, CEO & Director

Thank you, Jason, and thank you, everyone, for joining us today. Our proven investment thesis, which delivers 6% to 8% adjusted earnings growth and affordable bills for our customers has been durable for more than 2 decades because we focus on what matters. Today, I'm going to highlight 2 key areas of our thesis. First, Michigan's strong regulatory environment. Built on a solid constructive framework, much of which is codified in Michigan law, 10-month forward-looking rate cases, important financial and fuel recovery mechanisms and increased energy waste reduction incentives just to name a few attributes. This robust framework supports Michigan's position as a top-tier regulatory environment and provides important supportive incentives for needed investments to make our electric and gas systems safer, more reliable and resilient, and cleaner.

And second, our continued commitment to affordable bills for our customers. As I've said before, we work both sides of the equation. We make important investments and we keep customer bills affordable. I consider our use of the CE Way, our lean operating system, one of the best in the industry. This approach limits upward pressure on customer bills and is critical in the delivery of our investment plan. And we continue to see a long runway of cost-saving opportunities well into the future, delivering industry-leading results for all our stakeholders.

From a regulatory perspective, we're off to a strong start for the year. As you can see on Slide 4, our regulatory calendar is mostly complete. We received a constructive order in our electric rate case in March, filed our new electric rate case in May and settled our gas rate case earlier this month. The fourth consecutive settlement in our gas business, 4 consecutive settlements in gas, yet another proof point highlighting the strong regulatory environment in Michigan. We're very pleased with our recently approved gas settlement, which calls for \$62.5 million of effective rate relief, a 9% -- or 9.9% ROE and a 50% equity ratio. We plan to follow our next gas rate case in December of this year. Outside of rate cases, our upcoming 20-year Renewable Energy Plan or REP filing in November is the only major remaining filing for the year.

Let me pause there for a moment. Midway through the year, our financial-related regulatory outcomes are known. This is a great place to be.

I also want to talk about our formula to deliver customer affordability as we make important investments. Long-term filings, like our Renewable Energy Plan detail the significant planned investments that support safe, reliable, clean and affordable energy for our customers. As we've shared previously, we see more investment opportunities as we make the transition to renewables and clean energy.

In addition to the \$17 billion of needed customer investments in our 5-year capital plan, our electric Reliability Roadmap and Natural Gas Delivery Plans highlight important investments well beyond what's in our financial plan. Now, that's a long way of saying we see a long runway of necessary and important customer investments. These investments must be balanced with a laser focus on customer affordability.

We take seriously our ability to create capital headroom to make those investments through continued use of the CE Way, which provides over \$50 million of annual customer savings, renegotiating over-market PPAs and retiring our coal facilities, which together provide well over \$200 million in savings as we transition toward cleaner resources. Capitalizing on economic development opportunities, particularly in manufacturing, which brings jobs and significant Michigan investments, spreading fixed costs over a larger customer base, benefiting all customers. Lastly, leveraging our best-in-class energy waste reduction programs to help customers reduce bills. This is a formula that works for everyone, continuing to strengthen the system with important investments, while keeping customer bills affordable.

Now let's look at the results and outlook. For the first half, we reported adjusted earnings per share of \$1.63, up \$0.18 versus the first half of 2023, largely driven by the constructive outcomes in our electric and gas rate cases. We remain confident in this year's guidance and long-term outlook and are reaffirming all our financial objectives. Our full year guidance remained at \$3.29 to \$3.35 per share with continued confidence toward the high end. Longer term, we continue to guide toward the high end of our adjusted EPS growth range of 6% to 8%, which implies and includes 7% up to 8%.

With that, I'll hand the call over to Rejji.

Rejji P. Hayes
Executive VP & CFO

Thank you, Garrick, and good morning, everyone. On Slide 7, you'll see our standard waterfall chart, which illustrates the key drivers impacting our financial performance for the first six months of 2024 and our year-to-go expectations. For clarification purposes, all of the variance analyses herein are in comparison to 2023, both on a year-to-date and a year-to-go basis.

In summary, through the first half of 2024, we delivered adjusted net income of \$485 million or \$1.63 per share, which compares favorably to the comparable period in 2023, largely due to higher rate relief net of investment costs. And while we've seen some glimpses of favorable weather, particularly in June, overall weather continues to be a headwind through the first half of the year, equating to \$0.05 per share of negative variance and that figure includes the warm winter weather experienced in our service territory in the first quarter, which I'll remind you, had the second lowest number of heating degree days in the past 25 years.

As mentioned, rate relief net investment-related expenses, one of the key drivers of our first half performance resulted in \$0.13 per share of positive variance due to constructive outcomes achieved in our electric rate order received in March and last year's gas rate case settlement.

From a cost perspective, our financial performance in the first half of the year was negatively impacted by heavy storm activity, including a notable weather system that impacted our service territory in late June, resulting in \$0.03 per share of negative variance versus the comparable period in 2023.

Rounding out the first 6 months of the year, you'll note the \$0.13 per share of positive variance highlighted in the catch-all bucket in the middle of the chart. The primary sources of upside here were related to solid operational performance at NorthStar and higher weather-normalized electric sales.

Looking ahead, as always, we plan for normal weather, which equates to \$0.20 per share of positive variance for the remaining half of the year, given the mild temperatures experienced in the final 6 months of 2023. From a regulatory perspective, we'll realize \$0.12 per share of positive variance, largely driven by the aforementioned electric rate order received from the Commission earlier this year and the constructive outcome achieved in our recently approved gas rate case settlement, which Garrick summarized earlier.

Closing out the glide path for the remainder of the year, as noted during our Q1 call, we anticipate lower overall O&M expense at the utility driven by the usual cost performance fueled by the CE Way and the residual benefits from select sustainable cost reduction initiatives implemented in 2023 such as our voluntary separation plan, among others. Collectively, we expect these items to drive \$0.09 per share of positive variance for the remaining 6 months of the year.

Lastly, in the penultimate bar on the right-hand side, you'll note a significant negative variance, which largely consists of the absence of select one-time countermeasures from last year and the usual conservative assumptions around weather-normalized sales and nonutility performance, among other items. In aggregate, these assumptions equate to \$0.35 to \$0.41 per share of negative variance.

In summary, despite a challenging first half of the year, we're well positioned to deliver on our 2024 financial objectives to the benefit of customers and investors.

Moving on to our financing plan. Slide 8 offers more specificity on the balance of our planned funding needs in 2024, which at this point are limited to debt issuances at the utility. I'll bring to your attention a relatively modest increase to our 2024 planned financing at the utility. Specifically, we're now planning to issue approximately \$675 million in the second half of the year versus the implied estimates in our original guidance of \$500 million to rebalance the rate-making capital structure at the utility in accordance with recent rate case outcomes.

Although not highlighted in the table on the slide, I'm pleased to report that we've completed all of our planned tax credit sales for the year at levels favorable to our plan and ahead of schedule. I'll also reiterate that we have no planned long-term financings at the parent in 2024, but remain opportunistic should we see a cost-efficient opportunity to pull ahead some of our 2025 financing needs.

As I've said before, our approach to our financing plan is similar to how we run the business. We plan conservatively and capitalize on opportunities as they arise. This approach has been tried and true year-in and year-out and has enabled us to deliver on our operational and financial objectives, irrespective of the circumstances, to the benefit of our customers and investors, and this year is no different.

And with that, I'll hand it back to Garrick for his final remarks before the Q&A session.

Garrick J. Rochow
President, CEO & Director

Thank you, Rejji. CMS Energy, 21 years of consistent industry-leading financial performance. I have confidence in our strong outlook this year and beyond as we continue to execute on our simple investment thesis, and make the necessary and important investments in our system, while maintaining customer affordability.

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

Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Jeremy Tonet of JPMorgan.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

Just wanted to turn towards DIG for a little bit here if we could. And just wanted to get updated thoughts with regards to re-contracting overall and just, I guess, the outlook in this environment, given kind of trends in power prices?

Garrick J. Rochow

President, CEO & Director

I'd suggest, Jeremy, that it's consistent with what we shared in the past, energy and capacity markets, that upward pressure, continues to be a ripe opportunity and we continue to strike nice bilateral contracts to secure higher energy and energy capacity prices well above our plan. And so again, it's a good opportunity to continue to do that. And as we've shared in the past, this just continues to strengthen and lengthen our financial performance.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

Got it. And then it seems like a halfway through the year, CMS is in a pretty good position overall. Just wondering any thoughts you could share with regards to, I guess, how weather is looking and impacts for 3Q, as it stands right now. And really getting towards, I guess, cost management thoughts and whether you might be in a position to pull forward costs to further derisk the future outlook and how you think about all of that?

Rejji P. Hayes

Executive VP & CFO

Jeremy, it's Rejji. I appreciate the question. And I would say weather outlook looks fairly good for Q3, but obviously, early days. And I'll just say, personally, I don't give a lot of credence to 2- and 3-month outlooks. I'm much more focused on the 10 days ahead, which appear to be a bit more accurate. And so, we always remain paranoid about weather. And just based on year-to-date, weather has not been all that kind. And so, we'll continue to execute on cost performance-related initiatives. We've had some good success over the last several years in executing on cost management over the course of the year, and we'll continue to do that through Q3.

As I mentioned in the first quarter call, it's still premature to start thinking about pull-aheads for 2025. I'd say historically, even in the best of years, where weather was really helpful in the first couple of quarters, we still didn't think about flexing up or pull-aheads or any of those types of derisking mechanisms until we got deeper into Q3 and had a real good outlook on the fourth quarter. So hopefully, more to talk about from a 2025 derisking perspective next quarter. But at this point, it's too premature to get into that.

Garrick J. Rochow

President, CEO & Director

And if I could just add to that, Jeremy, part of the call here in my prepared remarks, I talked about the confidence. Confidence comes from the fact that we're executing on the CE Way. We've done that historically. We typically have been at a run rate of greater than \$50 million on an annual basis. We see that continuing. There are a number of things that we did in 2023 in terms of, Rejji shared in his prepared remarks, voluntary separation, contract control as those continue to yield benefit in the year. And also, we're applying a lot of digital solutions, everything from work in the field to automate work, all the way

into the office, things like work management that continue to provide additional cost savings in the year. So again, confident as I shared in the call here earlier, and delivering guidance for the year.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

Got it. I appreciate that. And then if I could just wrap with thoughts on opportunity to service data centers going forward here. And I guess, the interplay with regards to legislation in Michigan, whether that comes to fruition and how that might impact the pace of such types of development?

Garrick J. Rochow

President, CEO & Director

Jeremy, you know us well enough, the Hayes-Rochow team here well, we're pretty conservative in our approach to financials. And as I shared in the Q1 call, we want to make sure it's signed on the dotted line, you might say, before we talk about it. So, we don't inflate our sales forecast.

I would just say this, there's a lot of interest in both manufacturing and data centers in the state. As I shared in the Q1 call, we're seeing a lot of manufacturing growth. That continues into Q2. We saw data centers. We talked about one that we signed in Q1, 230 megawatts. There continues to be strong interest in the state, both the hyper-scalers and also, we're seeing some growth in what I call, mid-scalers from a data center perspective. Those continue to move forward regardless of legislation in the state. And so, the sales and use tax piece will continue in the conversation in the legislature. But again, it's a bit of a cherry on top of the sundae, you might say.

Operator

Our next question today is from the line of Shahriar Pourreza of Guggenheim Partners.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

So, I know you guys noted previously that the FCM mechanism could be incremental sort of on the new generation, not in plan. As we're kind of getting closer to the November REP filing, any thoughts on where demand is headed and how maybe CMS would be positioned for upside there? So, any thoughts on incremental CapEx versus the PPA options? Have you started to embed any higher load growth in your assumptions?

Garrick J. Rochow

President, CEO & Director

Shar, I was really hoping for a rate design question. I mean...

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

It's coming. It's coming. That's my follow-up.

Garrick J. Rochow

President, CEO & Director

Let's talk about this. We see -- we definitely see as a part of this energy law, additional upside. That shows up in ownership of assets, that shows up in the financial compensation mechanism. Both of those are true. Let me talk about how they'll play out, though. We're going to file this -- our Renewable Energy Plan in November, it's a 10-month process. So, we'll know in 2025, kind of latter half of the year, what that looks like. And so, in our 2026 capital plan, you'll see what that means, our 2026 financials both from an FCM perspective as well as what might the ownership mix look like. And so, that's where it will play out.

In addition to that, that's probably a portion of the story because in 2026, we'll also file our Integrated Resource Plan, which will talk about some of the reliability pieces and some of the work to deliver the

capacity component of that. So, between '26, '27, '28, I think that's when you'll see the capital impact as well as the financial compensation mechanism play out in terms of our financials.

And I'll say this, we've seen some good economic growth in the state. That will show up in our Renewable Energy Plan. We're definitely seeing a greater need than was in our original 2021 IRP. So, I'll leave it at that. And certainly, that will provide additional upside opportunity in terms of capital growth in addition to the energy law.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

Perfect. And then just a quick follow-up, and I obviously dedicate this to Garrick. Just on the rate case filing on the electric side, obviously, it's in the early innings. It's kind of more of a '25 event. The provisions and sort of the mechanisms like the IRM and DR remain unchanged. I guess do you feel there would be sort of an opportunity for settlement after testimony, given this is kind of a less complex case? I guess, how are you sort of thinking about settlement path versus the prior litigated path? I mean, is there anything, and I dedicate this to you, any of the rate design stuff in there that can cause some contention?

Garrick J. Rochow

President, CEO & Director

I set myself up for that one, didn't I? I [just hear] on this call. I'll always look for settlement opportunities. I'm also very confident in our team. We put a great case together, and we can go to full distance, just as we did this year in our March order. And so, when I think about this electric rate case, there's some things that have to be figured out to really get some context around the opportunity for settlement. One, I think it's really important to understand that electric cases are more complex than gas cases. So, for example, we had less than 10 intervenors in our gas case. We have a little over 20 in our electric rates -- electric case. That's not abnormal, it's just -- it's a more complex case. There's more interested parties, so we'll have to navigate through that.

I also think it's important to find where Staff is and where the Attorney General are at in this case. That will come in September. Those are important points to know in the context of settlement opportunities. But understand this, I'm very confident in this case. It is focused on electric reliability. That's well aligned with what our customers are asking for, what the Commissioners and the Staff are asking for and what I've committed to do. And so, this case has great capital investments with undergrounding. It has important work with hardening the system, automated transfer reclosers, technology on the system.

There's important work in O&M and tree trimming, our #1 cause of outage and other important maintenance work across the system. We're going to leverage the infrastructure recovery mechanism. We'll certainly look for -- we're going to try another store mechanism in this case as well. And so, we feel confident in our ability to get the very constructive outcome, just given how well aligned we are across the Commission, Staff as well as our customers. So hopefully, that gives you some context on the case.

Now on rate design, let me just talk a little bit about rate design. Specifically, data centers are not at our economic development rate. We had ex parte filing that made an adjustment in that, that was approved. And, so, in the meantime, they're under an industrial rate, we call it our GDP rate. And what that does is a better balance, both capacity and energy cost, and the cost to serve those customers. The Commission as well as the utility has been looking and exploring the opportunity of specific data center rate. But in the interest of time, the GDP is a good proxy for that in our mind. And so, well suited from a rate design perspective, from a data center perspective.

I also -- I said GDP, I think that's the wrong thing. I was hoping for something different there. Maybe that was GPD is what I meant, GPD -- sorry about that Shar. I had my eyes on the economic -- as you know, it's election time. I've my mind on other things like what's going to happen with our economy.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

There you go. I appreciate it guys. I think you just set up the next caller to ask you about an election question. I'll see you soon.

Operator

Our next question today is from the line of Michael Sullivan of Wolfe Research.

Michael P. Sullivan

Wolfe Research, LLC

Just wanted to go back to the data center legislation discussion. I think on the last call, you talked about a 230-megawatt data center coming in 2026. Was that contingent on the legislation or your understanding is still moving forward? And are there any other examples of that? Or is everyone else kind of-- waiting on legislation?

Garrick J. Rochow

President, CEO & Director

It was not contingent. That one is still moving forward. That's the signed piece. And that's -- I guess that's my point. What we hear from data centers, it's more important about how fast can you get transmission here, how fast can you build that conversion from transmission distribution to substation, how fast can you get supply here, and we're able to do that. And so many of those mid-scalers and hyper-scalers continue to make forward steps regardless of the progress on the sales and use tax.

And just to give you a little context, at the end of the spring session, the legislation was focused on the state budget. And in the words of our Governor, we got to fix the damn roads and we got to fund schools, right? And so, those are important things, too. I don't want -- we want smart kids in the state. So, those are important things underway. That conversation on data centers and the sales tax will continue into the fall. Now we're in elections. So, it will be difficult for me to predict how fast that will move or it could happen in the lame duck. And so, we'll continue that conversation in the state. But again, it's not stopping things from moving forward, Michael.

Michael P. Sullivan

Wolfe Research, LLC

Okay. And is that like a good proxy for how long it takes new load to come on to your system about 2 years with that one being 2026?

Garrick J. Rochow

President, CEO & Director

There's a number of variables there, Mike. So, in the case of that data center, what we talked about is they're bringing on load by 2025, 2026, and where they're located on the system makes a big difference. And so, we're able to accommodate that. Depending on where the data center locates from a property perspective makes a difference. Just as far as how far do we've to extend line, is it greenfield? Is it brownfield? There's all kinds of variables that go into it, but we're in that 2 to 3 years cycle. And again, even if you're at the tail end of that cycle, data centers are moving quickly, and that doesn't seem to be holding them up too much.

Michael P. Sullivan

Wolfe Research, LLC

Okay. Great. And then separately, just kind of sticking with legislation. I think there were some comments a few months ago from the PSC Chair about rate case timelines being a bit compressed these days. Are you hearing any chance of legislation coming up that would revert back to 12 months per cycle from 10 and just any general sense for rate fatigue in the state in light of those comments?

Garrick J. Rochow

President, CEO & Director

The short answer is no. As you know, what makes Michigan great is much of the regulatory environment set in law. So, 10-month forward-looking rate case is in the law, financial compensation mechanism, energy efficiency incentives are in the law. And we just went through that law. We just opened and it was just signed here last November, and we're hearing nothing in terms of opening that law back up or looking at different provisions.

Now, we continue to always have a constructive dialogue with the Commission and the Staff. And so, I do think there are opportunities right, in terms. And so, I'll give you one example, just one example of probably many you could think about. We've a great process for an Integrated Resource Plan and a Renewable Energy Plan that lay out an energy supply portfolio. So, we get it preapproved and then it flows into rate cases. It really streamlines rate cases. What if we could do the same thing on the distribution system, wouldn't that be great? Let's build a 5-year Reliability Roadmap. Wait, we've already done that.

Let's do that. Let's approve that and then have that flow into rate cases. That could really streamline the process. And if done in the right way, you can potentially see a path where you could stay out for a period of time, again, done in the right way.

And so, the kind of the nature of Michigan's constructive regulatory environment, let's explore that. Let's see if there's opportunities there to even further bolster Michigan's constructive nature.

Operator

Our next question today is from the line of Andrew Weisel of Scotiabank.

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

Just 2 quick ones. First, C&I weather-adjusted volumes were down in the quarter, it's a bit of a reversal from the first quarter. I know the first quarter was extremely mild weather. So, those numbers are probably a little bit goofy. But any commentary on the underlying trends and the near-term outlook for the rest of this year, maybe early thoughts on 2025?

Rejji P. Hayes

Executive VP & CFO

Sure, Andrew. This is Rejji. I'll take it and appreciate the question as always. Yes, we did see a little bit of a pullback in Q2 versus Q2 of last year for weather-normalized sales for electric. I'll always caveat and I think you alluded to it that it's a very imperfect science, and the team does a really good job trying to pull these numbers together with real accuracy. But again, it's very difficult to get real precision here. Just so everybody is grounded, residential for the quarter versus Q2 of 2023, which is slightly up about 0.1%, commercial down about 1 point, industrial down about 2 points, excluding 1 large low-margin customer and all-in blended was down about 1 point. And so that is to your comment, unfavorable from the trends we were seeing in the first quarter.

But I'd say, on a year-to-date basis, the trend remains quite good, and we continue to be surprised to the upside really across all customer classes because our assumptions were incredibly conservative as they always are for the year. And so we're outperforming across every customer class. What our initial expectations were that were embedded in our original guidance. And so we are still seeing non-weather sales upside.

I'll also note, as I've said before, that we had energy waste reduction incorporated into all of those numbers that you're seeing. And so, you should always add 2% to each of those customer classes because we're delivering the 2% reduction across every customer class year-over-year, and we've been doing that now really since the '08 law or thereabouts. And so, another way to think about those numbers I just quoted that you should add or gross up 2% across each of those, if you want to get the underlying economic conditions.

So, we still remain quite good. And then we still remain quite pleased rather with the results. And then when you think about it on a year-to-date basis, resi is up about 1 point, commercial is up over 1%,

industrial down about 1 point and all in is up about a little over 0.5%. So again, all things considered, particularly when you gross up for energy waste reduction. We think conditions in Michigan remain quite good really across all customer classes. Was that helpful?

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

Yes. Good reminder on the efficiency. And yes, we all know that you're conservative. Next, an operational question. You noted there was some heavy storm activity in the quarter, what kind of score or grade would you give yourself in terms of restoration efforts? Reliability is obviously a big focus for you. You talked about that in your comments, what would you say went well? What could have gone better? And how does this fold into your efforts as part of the electric rate case and the audit?

Garrick J. Rochow

President, CEO & Director

So, we're seeing a number of great improvements as a result of the investments we have made to date. More needs to be done along those lines. And so in fairness, I'd give ourselves a B in the context, there's more that needs to be done for our customers. And that's evident in the rate case filing that we're doing.

Where we've worked a lot this year is reducing the size of the outage. And so, we've put in a lot of fusing. So, what I mean by that is you've less customers impacted when the tree comes on the line, that's an important work. We've more than doubled our tree trimming work over the last 3 years. That's also provided benefits. When we trim trees there, we see a greater than 60% reduction in the number of outages. You may ask why not 100% because we still see trees outside the right-of-way that impacts our performance.

But I'd also put it into context, Rejji talked about the last week of June, and there was a larger event in June, but there was a lot more smaller events, which we'd anticipate. We're trying to shrink the size, which makes restoration easier, but a lot of pockets throughout the state. We brought in a number of resources. We leveraged a lot of our existing union resources to be able to respond to that, and we had good response from that perspective.

We measure in terms of restoring our customers within a 24-hour window. We want to have all customers restored within a 24-hour window. And last year, in 2023, we were at 90% within a 24-hour window. This year, we're upwards of 95%. And so, that shows the directional improvement. Now the year is not done.

We've got a lot of work to do. And we'll continue to make some important investments throughout this year. And again, this electric rate case shows the path for more. So hopefully it gives that some context.

I know Rejji wants to add to it as well.

Rejji P. Hayes

Executive VP & CFO

Andrew, all I'd add to Garrick's good comments on the operational side is really applying a financial lens. And I'd give us about a B+ to A-, on the financial side because through utilization of the CE Way, we've done a really good job reducing unit cost in our actual service restoration. And we're seeing at this point over \$40 million of avoided costs.

Now needless to say, I talked about negative variance attributable to overall service restoration costs versus last year. However, the cost would have been decidedly higher absent the problem-solving we've done throughout the year. And so, we're contracting third parties more efficiently. We're using more automation to reduce manual inspections and definitely leveraging the tools of the CE Way to really execute on storm restoration much more efficiently than we have in the past.

And so, in addition to all the operational feats that Garrick highlighted, we've also applied a really thoughtful financial lens as well to make sure that we're bringing customers back online as quickly as possible and -- as quickly as possible and as cost efficiently as possible. So, I'd be remiss if I didn't add that as well.

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

Certainly sounds better than years' passed. I appreciate the details.

Garrick J. Rochow

President, CEO & Director

Thank you, Andrew.

Operator

Our next question today is from the line of Julien Dumoulin-Smith of Jefferies.

Julien Patrick Dumoulin-Smith

Jefferies LLC, Research Division

Garrick, when are you putting your -- when are you putting yourself in the ring here for VP, given all the political conversation here, right? Now, you want to fix the damn roads.

Garrick J. Rochow

President, CEO & Director

A Harris/Rochow ticket. I don't know. I don't know if it has a ring to it. Look, I'll give it a try.

Julien Patrick Dumoulin-Smith

Jefferies LLC, Research Division

Anyway, I -- look, you guys have clearly -- you got your front foot forward here for sure. Look, you favorably have pulled back on O&M savings here. You're talking about leaning in, being in a good position against near-term and longer-term targets. You've issued more debt, I think it was \$675 million versus the \$500 million to rebalance your equity ratio. What's driving this level of outperformance? But I just want to -- I just want to try to clarify like the debt signaling as well as just overall the commentary, especially considering the O&M factor that you flag here. Like typically, you lead with costs, but I'm wondering what other factors there are?

Rejji P. Hayes

Executive VP & CFO

Julien, it's Rejji. I appreciate the question and welcome back. Really good to hear your voice. Let me start with a few of the just premises or working assumptions you offered up in the question. And so just let me start with the debt at the utility, just for factual purposes. And so, we're planning to issue about \$675 million in the second half of the year at the utility as part of our financing plan. It was initially \$0.5 billion and so we've slightly increased, and that's really just because of our rate case outcomes, which had modestly lower equity levels, and so we'll have more debt at the operating company. And so, I just want to make sure that, that was abundantly clear. And obviously, we'll look to execute on that financing as cost efficiently as possible, and we'll be thoughtful about the maturity profile as well.

The outperformance has been, obviously, we always try to deliver on the cost performance side. But as I mentioned in my prepared remarks, rate relief net of investments has been helpful getting constructive orders, the electric rate order in early March, the gas rate case last year, we're still seeing the residual benefits from that. And so that's really what's helped us in the first half of the year. And also, though it's embedded in that catch-all bucket, as I noted in my prepared remarks, NorthStar has really outperformed. They had a really soft comp in the first half of 2023, just given last year's plan was a bit more back-end loaded. And there were also some outage-related issues at DIG, given a transformer issue.

And so, this year, they've really gotten out of the gate pretty strong. DIG is up about \$0.05 year-over-year, and we're seeing the residual benefits from some solar projects that came in late last year. And so, I'd say it's a combination of rate relief net of investments, outperformance at NorthStar as well as some cost performance, as you alluded to, offset by mild weather conditions, which have hurt the top line as

well as storms, as we talked about in the prior question. So, I'd say it's a combination of all of that, which gives us just good confidence going into the second half of the year.

Julien Patrick Dumoulin-Smith

Jefferies LLC, Research Division

Excellent. And Rejji, just to follow-up on that real quick. A lot of that dynamic with NorthStar, some of it is true up there. You talked about outages year-over-year. You should have -- in theory, some of that should have been expected, the solar in service. I mean, I'm curious, the outperformance here. I mean, is this more of a true-up? Or is there sort of a compounding effect across the subsequent years? How do you think about the leading indicators there?

Rejji P. Hayes

Executive VP & CFO

Yes, good question. NorthStar is on plan, we anticipated a front-end loaded year for all of the reasons you noted. So, a good portion of NorthStar's performance was on plan. But I'll say DIG did surprise a little bit to the upside in the first quarter because operationally, not only are they executing very well, but they're also executing on a lower unit cost basis, which drives a little bit of additional margin. There are also opportunities for off-peak margin that the team has capitalized on. So, I'd say it's a combination of being on plan because it was a front-end loaded plan at NorthStar, but also show our operational efficiency, which we've seen. So, that's really the thrust of it at NorthStar.

Operator

Our next question today is from the line of Durgesh Chopra of Evercore.

Durgesh Chopra

Evercore ISI Institutional Equities, Research Division

Just -- all my other questions have been answered. I just wanted to see if there's an update on the performance-based ratemaking docket here? Coming out of the legislation last year, where do we stand there? Can you just update us on that, please?

Garrick J. Rochow

President, CEO & Director

Sure. That's been a very constructive dialogue. As I've shared in the past, it started really wide in the number of metrics. And then through good dialogue, it was narrowed down to a nice 4 benchmarkable metrics. It's grown a little bit to accommodate some storm provisions. However, there's still a constructive dialogue underway here in July and August, there's filings to be able to navigate that.

There's a few things we still want to work through and dot the i's and cross the t's on you might say. And then I expect that this is going to play out over several rate cases. And so, it's not going to be implemented here immediately. But I think it just speaks to the constructive dialogue we have in Michigan here. A lot of good intervenors and filings that go back and forth to really make sure it's going to be a productive ratemaking mechanism.

Durgesh Chopra

Evercore ISI Institutional Equities, Research Division

Got it. So, just kind of the framework of this would be a potential earnings uplift. And then on the downside, a potential penalty on certain metrics. And then when did you say this could go into effect? This is a '25 item, '26. Just any thoughts there?

Garrick J. Rochow

President, CEO & Director

I'd put it several rate cases away, so over maybe 1 year or 2 years out from an implementation perspective. Again, that's my view, just what I see of the world. The intent is -- for it to be symmetric. And so, there's upside opportunity and downside opportunity. The downside opportunity is marked at

about \$10 million at this context, which is manageable in the context of the year. That means the upside opportunity is roughly that same amount. And at least as it's proposed currently.

Operator

[Operator Instructions] And our next question is from the line of Travis Miller of Morningstar.

Travis Miller

Morningstar Inc., Research Division

A very high level on electric demand. I wonder if you could elaborate on how it's trending versus your 2021 IRP and how as you had mentioned earlier in the call, how that would affect potentially the Renewable Energy Plan filing here? They're trending higher or lower and how does that impact the REP?

Garrick J. Rochow

President, CEO & Director

Yes. It's definitely trending higher based on all the economic development activity that is, again, not speculating on that, that is signed or -- and we're out building transmission -- not building transmission, substations and there's transmission being built to serve these customers. And so, in our Renewable Energy Plan filing, you should anticipate that there's additional sales referenced there above and beyond our 2021 IRP.

Travis Miller

Morningstar Inc., Research Division

And is it fair to make the leap then that you'd need more renewable energy on that same percentage basis as what's in the law?

Garrick J. Rochow

President, CEO & Director

Yes, generally speaking. Yes.

Travis Miller

Morningstar Inc., Research Division

Okay. Okay. And then also, obviously, there's a lot of talk in the media about Palisades. From your perspective, is it accurate that you're seeing development moving forward on that plant? And then if so, would you be interested in either implementing that in your plan in terms of the capacity and energy and/or signing a PPA?

Garrick J. Rochow

President, CEO & Director

Palisades is making forward progress in the state. From a state budget perspective, another \$150 million was allocated towards the forward direction of the facility. They're having public meetings that are going on right now on site. So again, forward steps in moving forward that plan.

Now, I'll remind you that a PPA has already been struck for the offtake from the Palisades facility that goes to a co-op in Michigan and a co-op in Indiana. So, it's already spoken for. Now, we did -- it's good for Michigan that Palisades is returning. And we, at CMS Energy, do not see any adverse impact as a result of Palisades coming back.

Operator

Our next question today is from the line of Nick Campanella of Barclays.

Nicholas Joseph Campanella

Barclays Bank PLC, Research Division

I hope everyone is having a great summer. Just one for me today. So, I know, Rejji, you said you'd be opportunistic in your prepared remarks around financing and potentially pulling things forward from '25. I'm just cognizant that you do have kind of -- start to issue equity in 2025. And maybe you can just kind of give us some more color. Are you just kind of talking about pulling forward hybrid or debt or is everything on the table, how do you think about that?

Rejji P. Hayes*Executive VP & CFO*

Yes, I appreciate the question, Nick. I would say in short, I wouldn't say everything is on the table. So, you won't see us issuing equity in 2024. What we have done in the past, though, is we have executed on forwards opportunistically to at least take some of the price risk off the table. And I'd say where the equity is today, I don't think that seems like the most likely trade. But I was speaking more towards parent debt financing needs. And certainly, our thinking is quite expansive, everything from senior notes to hybrids and those types of securities, all of which we've done pretty opportunistically in the past.

As you may recall, we've got about \$250 million coming due at the Holdco next year. And so, we're mindful and we have, I'd say, modest new money needs on top of that. And so, we'll see if there's good pricing in the market, particularly if the speculation around potential dovish policy -- dovish monetary policy from the Fed comes to fruition, but I've stopped wagering on that.

So, we'll see what happens. But if we start to see a correction in the yield curve that's favorable and it creates opportunities for Holdco debt financings, we'll look to do that. And again, I'd say the equity needs still as is up to \$350 million starting next year, and I don't see us pulling any of that forward.

Nicholas Joseph Campanella*Barclays Bank PLC, Research Division*

All right. That's super helpful. I really appreciate it, and I'm looking forward to seeing you at the conference in September.

Rejji P. Hayes*Executive VP & CFO*

Thanks. See you then.

Operator

With no further questions in the queue at this time, I'd like to hand the call back to Mr. Garrick Rochow for any closing remarks.

Garrick J. Rochow*President, CEO & Director*

Thanks, Harry. I'd like to thank everyone for joining us today. I look forward to seeing you on the road soon. Take care and stay safe.

Operator

This concludes today's conference. We thank everyone for your participation.

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