

CMS Energy Corporation NYSE:CMS

FQ1 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.01	1.02	▲0.99	0.68	3.59	3.86
Revenue (mm)	2304.78	2447.00	▲6.17	1696.65	7967.00	8326.40

Currency: USD
Consensus as of Apr-24-2025 9:07 AM GMT

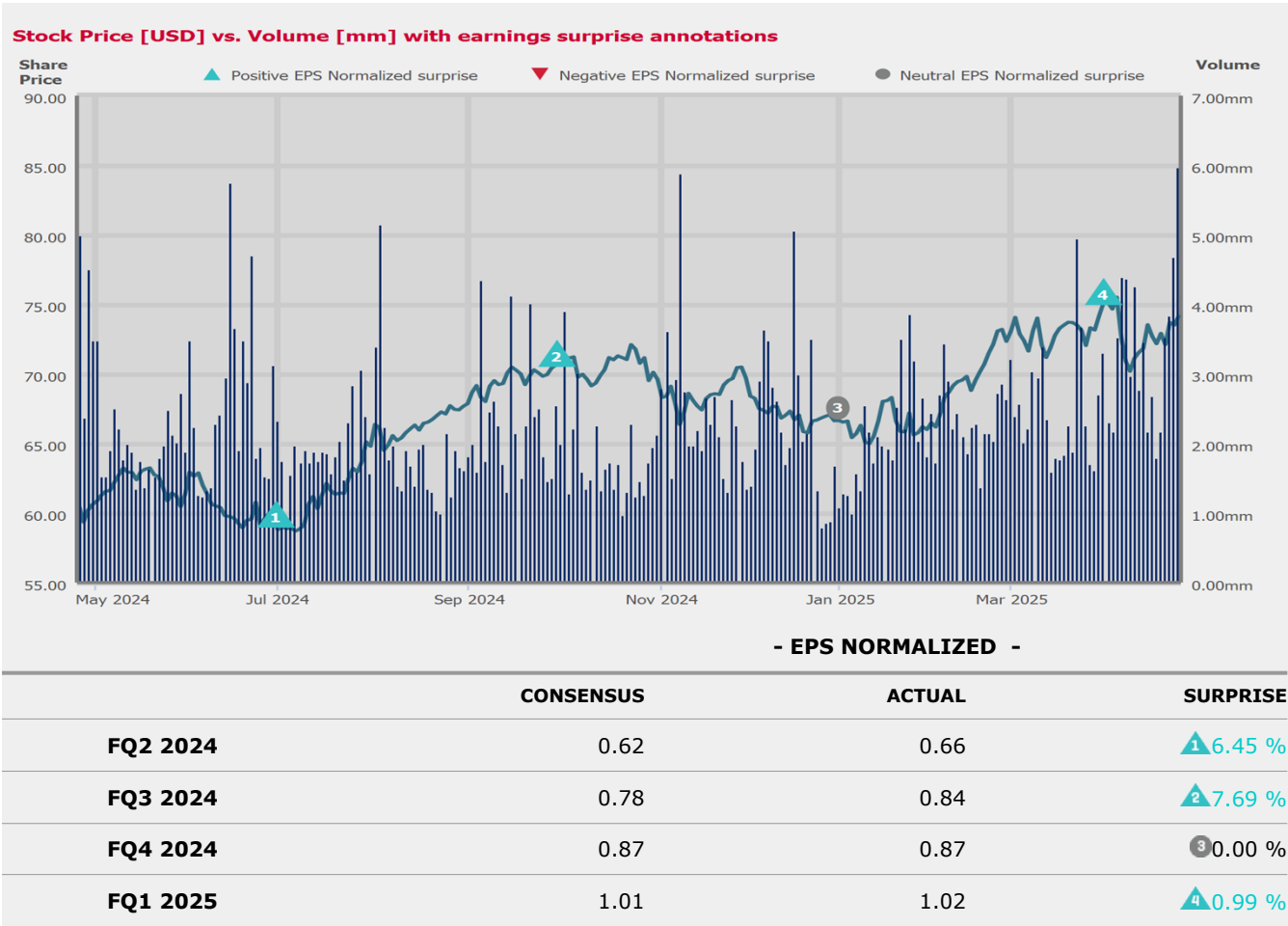


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Call Participants

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Presentation

Operator

Good morning, everyone, and welcome to the CMS Energy 2025 First 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 May 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. 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. CMS Energy, consistent, predictable, dependable. 22 years of steady hands at the wheel. It's what you expect, and it's what we deliver and even more important in these times of broader economic uncertainty. It starts with our investment, which is based on conservative planning paired with disciplined execution, a commitment to excellence across our electric and gas businesses, constructive legislation and regulation and driving growth across the state with a robust economic development pipeline.

Our customers count on us to deliver safe, reliable, affordable, clean and equitable energy under all conditions, and our investment thesis is what keeps us on track. It's our focus. It's what you count on us for every year. In fact, I'd like to take a moment to shine a spotlight on our recent storm response, which included company crews, dispatchers, call centers, coworkers, contractors and volunteers, who were committed to delivering excellence for our customers during the recent historic storms that impacted Michigan in late March and early April. These storms packed it all in. 14 tornados, nearly 100 mile per hour winds and in northern locations, over 1.5 inches of ice. The team executed well. We were prepared and ready to dispatch prior to the first wave of weather with 500 crews pre-staged and 900 total crews dispatched. Fighting storms on 2 fronts. We restored customers safely and quickly, then continued to serve supporting local co-op utility customers in their restoration efforts. We saw favorable customer and positive policymaker support because of our response.

Yes, our investments and process changes are making a difference. I'm extremely proud and thankful for our coworkers and how they showed up and the work they do daily to improve performance for our customers.

I want to start today with Michigan's constructive regulatory environment. We are pleased with the recent electric rate order in March, approximately 65% of the revised ask, nearly double the investments included

in the investment recovery mechanism and solid support for our investments to improve electric reliability for our customers. We work hard to ensure our filings are transparent and high quality, and we are seeing the results, achieving constructive regulatory outcomes time and time again.

We'll continue to work closely with the MPSC Staff, interveners and the Commission on the importance of our investments to bolster our electric and gas systems to ensure we continue to serve customers during sunny days and extreme weather. Given our continued focus on improving electric reliability, you can expect us to file our next electric rate case in Q2.

In our gas rate case, we did recently see Staff testimony, which we view as a constructive starting position. As we've shown in the past, we're always open to settlement, having settled our last 4 gas cases. The dynamics of these gas cases are different than our electric cases, and we feel good either way, a settlement or fully adjudicated order. For our longer-term filings, we expect an order in our renewable energy plan or REP by mid-September. Our REP will help define our clean energy future and feeds into our Integrated Resource Plan or IRP that we'll file next year.

Earlier in my prepared remarks, I referenced broader economic uncertainty. As you would expect, we are closely monitoring the landscape of potential changes, shaping as needed, and preparing to adjust as necessary. Our conservative planning and strong fundamentals as well as our track record of delivering through any event gives me confidence that we are well positioned to effectively navigate any scenario. This confidence is further bolstered by our diversified service territory with minimal exposure to the auto industry or any other large sectors.

We are actively monitoring the landscape and have a diverse supply chain, which limits our exposure to tariffs. Our direct and indirect spend is approximately 90% domestically sourced, and we continue to shift to U.S.-based vendors to lower our exposure. Much of the exposure is related to capital equipment, which means any customer impact would be spread over the life of the asset and our earnings are largely insulated. Nonetheless, we are actively working with all suppliers to manage fluctuations in price and sourcing to keep customer bills affordable as we execute on our plan.

In the context of the Inflation Reduction Act or IRA, we've seen good support from Republicans in our individual conversations, including the 25 who have signed on in support of continuing tax credits. Our read is that there may be a partial repeal of portions of the IRA. And although we do not expect changes to the renewable tax credits, we continue to safe harbor equipment for projects within our 5-year plan. And as a reminder, we have a supportive energy law in Michigan that mandates renewables and 100% clean energy resources by 2040. The law shapes our customer investments through our REP and IRP.

To the degree there are changes in the IRA, Michigan's law offers us enough flexibility to achieve the intent of the law and ensure resource adequacy and affordability for our customers. As for industry exposure, I'll remind you the auto industry is about 2% of our total gross margin. The heart of our electric service territory is in the Grand Rapids Metropolitan area, which is diversified with commercial businesses and manufacturing and includes significant jobs and state investment. We're also seeing expansion in other industries, including defense, aerospace, polysilicon, semiconductors and agriculture.

At CMS Energy, our core business is to serve under all conditions. Our mindset of preparedness and conservative planning ensures we are ready for multiple scenarios. Calm in the storm and steady at the wheel.

I want to talk for a moment about Michigan's exciting growth renaissance and our work to help our service territory in the state thrive and prosper. First and foremost, we see strong progress in the continued construction and work that make up the 2% to 3% load growth within our 5-year financial plan. We have seen one large data center project accelerate their load ramp-up by almost a year. And another large new manufacturing project has requested to expand service by an additional 10%, all positive indicators. Both we can deliver.

Since the beginning of the year, with the elimination of the sales and use taxes for data centers, our pipeline has grown to 9 gigawatts, with more of that shift, about 65% toward data centers. We're seeing the data center pipeline continue to progress and feel confident some of these projects will materialize

into contractual agreements. The data center tariffs, which we filed in February with the Commission is the next logical step in that process. The tariff provides a great opportunity for data centers and protects our existing customers. We'll continue to work through this proceeding with settlement being a possible outcome.

As I've shared before, we are also excited about the manufacturing growth in our pipeline that brings with it secondary and tertiary benefits, including new and growing commercial business as well as residential load. We're excited about and committed to Michigan's future, and we are prepared to serve its growing energy needs.

Now on to the financials for the quarter. In the first quarter, we reported adjusted earnings per share of \$1.02. We remain confident in this year's guidance and long-term outlook and are reaffirming all our financial objectives. Our full year guidance remains at \$3.54 to \$3.60 per share with continued confidence toward the high end. Longer term, we continue to guide to the high end of our adjusted EPS growth range of 6% 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 8, you'll see our standard waterfall chart, which illustrates the key drivers impacting our financial performance for the quarter and our year-to-go expectations. For clarification purposes, all of the variance analyses herein are in comparison to 2024, both on a first quarter and 9 months to-go basis.

In summary, through the first quarter of 2025, we delivered adjusted net income of \$304 million or \$1.02 per share, which compares favorably to the comparable period in 2024, largely due to the absence of the mild weather experienced in Q1 of 2024, coupled with higher rate relief net of investments. These sources of positive variance were partially offset by higher O&M costs at the Utility, driven by the continued execution of our electric reliability road map and the timing of select items at NorthStar, like our planned outage at the Dearborn Industrial Generation facility or DIG, among other factors.

To elaborate on the impact of weather, we experienced a relatively normal winter in Michigan in the first quarter for the first time in a couple of years. As such, we saw a \$0.26 per share of favorable variance, which largely reflects the absence of mild weather experienced in the first quarter of 2024. Rate relief net of investment-related expenses resulted in \$0.07 per share of positive variance due to constructive outcomes achieved in last year's electric and gas rate orders in addition to the benefits of ongoing renewable projects.

Moving on to cost trends. As noted, in accordance with our electric reliability road map, we continue to increase the size of our vegetation management program as we glidepath to a 7-year trim cycle across our low-voltage electric distribution system. The associated financial impact was the key driver of the \$0.05 per share of negative variance versus the comparable period in 2024. In our catch-all category represented by the final bucket in the actual section of the chart, you'll note a negative variance of \$0.23 per share, largely driven by a strong 2024 comp at NorthStar due to normalized operations at DIG and the timing of tax benefits from renewable projects.

Other notable drivers in this category include the impact of Parent financing activities in the quarter and select one-time reversals from last year. Looking ahead, we plan for normal weather, as always, which equates to \$0.12 per share of positive variance for the remaining 9 months of the year, primarily due to the absence of the mild temperatures experienced in the fourth quarter of 2024. From a regulatory perspective, we're assuming \$0.16 per share of positive variance, which is largely driven by the constructive electric rate order received from the Commission in March, ongoing benefits of renewable projects at the Utility and the assumption of a supportive outcome in our pending gas rate case.

On the cost side, we anticipate higher overall O&M expense at the Utility for the remainder of the year, largely driven by the expectation of increased service restoration costs attributable to the large weather system that impacted our service territory in late March, extending into early April that Garrick mentioned.

It's worth noting that this storm was the costliest in our company's history at roughly \$100 million of operating and maintenance or O&M expense per our preliminary estimates.

As you would expect, we're already busy at work identifying and implementing countermeasures such as limiting hiring, reducing our use of consultants and contractors and eliminating other discretionary Spending, among other potential offsets. And of course, we expect increased productivity from the CE Way, which our workforce has delivered every year since we instituted the lean operating system roughly a decade ago.

It is also worth noting that we have sought a deferred accounting order for the financial impacts of the storm given its historic nature, which we filed earlier this week. The recalibration of our service restoration expense for the remainder of the year, net of anticipated savings from the aforementioned countermeasures, will drive an estimated net impact of \$0.04 per share of negative variance for the remaining 9 months of the year.

Lastly, in the penultimate bar on the right-hand side, you'll see an estimated range of \$0.03 to \$0.09 per share of negative variance, which incorporates further risk mitigation to the financial headwinds encountered in the first quarter and provides additional contingency should we need it, namely in the form of opportunistic financing activities.

Before moving on, I'll just note that our track record of delivering on our financial objectives over the last 2 decades, irrespective of the circumstances speaks for itself. That said, we'll always do the worrying so you don't have to, and we remain confident in our ability to deliver on our financial and operational objectives this year to the benefit of all stakeholders.

Moving on to credit quality. It is worth noting that Fitch reaffirmed our credit ratings in March, as noted at the bottom of the table on Slide 9, and we are currently working through the review process with Moody's. Longer term, we continue to target solid investment-grade credit ratings, and we'll manage our key credit metrics accordingly as we balance the needs of the business.

Slide 10 offers an update to our funding needs in 2025 at the Utility and the Parent. During the quarter, we issued \$1 billion of junior subordinated notes or hybrids with a 6.5% coupon at the Parent, which I'll note was identical to rates achieved by some of our much larger peers and had the tightest credit spread achieved for a hybrid in recent memory, which speaks to our credit quality and the strong receptivity to our paper in the market. As you'll note in the table on the left-hand side of the page, the hybrid issuance addressed a good portion of our financing needs at the Parent for the year while offering significant financial flexibility on our remaining needs.

We'll look to complete the balance of our financing plan at the Parent and Utility over the remaining months of the year with a keen focus on maintaining our consolidated credit metrics around the mid-teens area from a funds-from-operations-to-total-debt perspective. As always, we'll remain opportunistic and look to capitalize on market conditions.

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

Thanks, Rejji. As the landscape continues to evolve, I want to remind everyone about our long history of delivering under all scenarios for all our stakeholders. Remember, our business is preparedness and response through uncertainty, recession, bad weather - doesn't matter. We've seen it before, and we've navigated the waters. Bottom line, we deliver. Our track record speaks for itself. We focus on what is necessary to deliver for our customers and investors, and we remain confident in our outlook for 2025 and beyond.

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

Question and Answer

Operator

[Operator Instructions] Our first question will be from the line of Durgesh Chopra with Evercore ISI.

Durgesh Chopra

Evercore ISI Institutional Equities, Research Division

Appreciate all the commentary around tariffs and IRA. I just -- one question was focusing on NorthStar. Maybe just -- can you remind us what percentage of capital? I appreciate it's small versus the rest of the company. What percentage of capital is going towards solar, storage. And then just given the IRA discussion and repeal risk, do you kind of reprioritize that capital, potentially maybe switch that with higher regulated capital. Your comments around safe harboring, do those apply to NorthStar as well as you try to kind of secure those tax credits into the future?

Garrick J. Rochow

President, CEO & Director

Thanks for your question, Durgesh. Great question. Again, context is really important here in the context of NorthStar. So we're talking about 5% of the EPS mix here. So, small. And remember, the big driver here is DIG or Dearborn Industrial Generation. That's the big story in the energy and capacity markets. And so when it comes down to the amount of capital that we're spending on renewables, it's small. Rejji will have the numbers here in a bit. But there's nothing on storage, 0 on storage. And so it's all really renewables and those are, again, projects that are well laid out for the future.

Now how will we derisk those projects? One, we have contracts in place that allow for escalators, that's an important piece. But we've done a lot of great work in terms of securing panels. I've got panels secured through 2030 through a variety of vendors through contracts, some already on site to be able to navigate any implications from a tariff perspective. And then I'm out in 2028 from a safe harbor provision in the main power transformers. And so we feel good about the runway there of projects, renewable projects, and what we've done to derisk that. But as you know and your question alluded to, there's tons of flexibility. We have plenty of opportunities to invest in the Utility itself. And so those are decisions we make on a year- by-year basis and where the needs are for the company and are best suited. But again, feel good about NorthStar's ability to deliver not just in the year, but also from a long-term perspective.

Rejji P. Hayes

Executive VP & CFO

Yes, Durgesh, I'll just build on Garrick's comments there. We certainly feel good about NorthStar's prospects going forward and have done a lot to derisk renewable projects on both the Utility side and the NorthStar side and have done some things in supply chain that further fortify our position going forward. From a capital perspective, we're planning, and this is in our 10K that we filed last quarter. About gross investments, a little over \$2.5 billion. I say gross because we have planned to recycle capital, largely at NorthStar, through the sell-down of common equity stakes and so that is providing a lot of liquidity to fund their projects. And so the equity infusions from the Parent are relatively light, probably about 20% of that or so or \$0.5 billion. So gross capital investments of about \$2.5 billion to support commercial renewable projects over the next 5 years. And the reality is if we do see some repeal of the IRA, we will just increase the bar or raise the expected hurdle rate for those renewable projects at NorthStar. And so if we saw the economics of those projects being less attractive, we would certainly allocate more capital to the Utility.

As you know, capital is not an issue at the Utility. There's plenty of opportunity. Our current 5-year plan of \$20 billion of capital investments at the Utility has another \$20 billion or so on the outside looking in and I think that's the low end capital investment opportunities outside the plan. So, a lot of flexibility to allocate capital to the Utility versus NorthStar, again, if we see the economics of those projects start to soften over time. So really good flexibility going forward and no concerns with the economic outlook there. Is that helpful?

Durgesh Chopra*Evercore ISI Institutional Equities, Research Division*

Very helpful. A lot of flexibility there, it sounds like. Thank you for that color. And then just quickly, Rejji, the deferred accounting order on the storm costs, have you guys done that before? Sorry, I should know, but I don't. Maybe just remind us if you have done that before? And if not, like what are sort of the procedural steps here? Is there a timeline that the Commission is going to sort of rule this on by? Or is this just a one-off type event and there's no set procedural schedule here?

Garrick J. Rochow*President, CEO & Director*

And maybe I'll just take your question and do a little bigger picture on it, and then we can go down in this process from a storm perspective. As Rejji talked about in his prepared remarks, there is a number of levers and opportunities, everything from the CE Way to technology to what Rejji shared in his prepared remarks on how to deliver the year. And for both the customers and really investors and really all stakeholders, that's the tools in the toolbox. And what we're doing with this particular storm, this, what I would say is an historic storm and really extreme weather, as I characterized in my remarks, is leveraging the Liberty audit. If you go into the Liberty audit, that's the distribution audit, it specifically calls out best practices with jurisdictions and utilities is to have a mechanism for extreme weather. And that's what we filed and will be the first time we filed that with the Commission in this kind of framework. We've had constructive conversations both with Staff and the Commissioners. And so again, it's an ex parte filing, the timeline has not been established at this point. But Durgesh, I'm going to go a little off the record here. Like I'm an old farmer. I grew up on a farm. And so I don't count my chickens before they hatch. And that's a true thing from a farmer perspective, like understand this, like we're not counting on that. It's important. We think it's needed in Michigan. Again, constructive conversations, but we have a lot of tools in our tool belt to be able to deliver for the year.

Rejji P. Hayes*Executive VP & CFO*

Durgesh, all I would add, and I wish I had a farming analogy as well, but I do not, just a couple of things to Garrick's good comments. And so you asked, I think, specifically about the timing of approval.

Because it's an ex parte filing, I think that will be at the Commission's discretion. Obviously, our expectations are tempered, but we would love to see just a fairly quick resolution to the matter. So we just at least know what the outcome is in a timely fashion. And in terms of our history around this, we have sought mechanisms like this in the context of rate cases. I can't recall the last time we sought an accounting order like this outside of a rate case, maybe once in the past in my 8 years as CFO. So, this is fairly atypical. But we think given the historic nature of the storm it's justified, and I believe we've made a strong case in the filing as to why we should get support here. So I just wanted to address those two direct questions you had.

Operator

The next question today will be from the line of Shar Pourreza with Guggenheim Partners.

Constantine Lednev*Guggenheim Securities, LLC, Research Division*

How are you thinking about the execution on the financing plan, just given that optically the balance of the equity needs is resolved through the hybrid. Is there kind of more execution to come in '25? Or is there some efficient financing that unlocks like a CapEx pull forward or any other opportunity in the near term?

Rejji P. Hayes*Executive VP & CFO*

Constantine, this is Rejji. Appreciate the question. Yes, per my prepared remarks, we still have a bit of financing left in the plan for the year. And so at the Parent, just going back to our original guidance, we said we had about \$1.8 billion to do. So \$1.3 billion of what I'll just say, nonequity financing and our

working assumption was senior debt assumptions -- senior debt financings and then up to \$500 million of equity. Obviously, the hybrid transaction that you noted really took care of a good portion of those needs. And

so with the equity credit ascribed to hybrids, that creates a lot of financial flexibility. And so we still have about \$700 million or so left for the remainder of the year. We're keeping all options on the table. We've seen really attractive execution across a variety of securities offered in the first quarter from some of our peers. And so we're keeping all options on the table but have quite a bit of flexibility. And at the Opco, just to round it out, we've got \$1.1 billion left. And I think the working assumption for those financings will be first mortgage bonds. And so as always, we'll look at which securities are most attractively at both the Parent and the Opco, and we'll be opportunistic as we always are. With respect to pull-aheads for capital, we've got \$3.7 billion in the Utility per our plan this year. And so we're focused on executing on that. And so we'll see what the rest of the year has in store for us. And so we're acutely focused on the current plan for this year and really haven't thought about pull-aheads in any respect, if that was the spirit of the second part of your question.

Constantine Lednev

Guggenheim Securities, LLC, Research Division

Yes. Understood. Understood. And maybe a higher-level question in terms of your energy supply needs. How are those evolving, especially as you get feedback through the REP process? Is there more dispatchable generation needs that you see kind of going into the next IRP cycle? And do you think that there's a better case for kind of like a DIG buy-in into the Opco?

Garrick J. Rochow

President, CEO & Director

A portion of our energy supply needs are spelled out in the Renewable Energy Plan, and that addresses some of the energy needs and the compliance with the May '23 energy law. And so as we've seen the need to get to the 50% and 60% renewable targets as well as because of the 2% to 3% load growth that is in our 5-year plan, you can see and have insight into those both renewable needs as well as storage needs in the future. The broader need for capacity and to be able to continue to deliver to the load growth and the pipeline within the state will come together in the Integrated Resource Plan. We'll file that in 2026. It will evaluate and look at natural gas plants, the existing natural gas plants we have in the state, the longevity of those plants, considerations for carbon capture and sequestration technology. And so that modeling work is still underway, as you might imagine, for a 2026 filing and will be also based on the Renewable Energy Plan. So, that's really all I can share at this point but as you -imagine as you're growing the state and you have this pipeline, there will be additional needs in the future for supply assets.

Constantine Lednev

Guggenheim Securities, LLC, Research Division

Okay. Understood. And then maybe you're hitting quickly on just a question around storms again. As you're kind of noting the impact of the offsets in the quarter, do you anticipate those to be recurring? Or would those potentially unwind with that potential deferral filing?

Rejji P. Hayes

Executive VP & CFO

Yes. So I would say, Constantine, similar to prior years when we saw significant financial headwinds, we'll look at all opportunities across the cost structure. I'd say it's premature to think about what's recurring and what isn't. But what I have been encouraged to see really per my prepared remarks over the last 10 years is every year, we establish a target for how much productivity and cost savings, whether that's hard cost savings or avoided costs associated with the CE Way. And every year, we exceed that target pretty significantly. And by definition, the savings generated by the CE Way are recurring savings. And so I'll give you an example. Last year, we had a target for the CE Way of around \$50-or-so million. We delivered \$110 million of savings and those are obviously recurring. And so I would say we've exceeded expectations year in year out on what we expect to achieve from a productivity perspective. But we'll also look at one-timers. I mentioned we'll look at sort of financing activity. So we may start to take a look at

liability management as we had in the past, and we'll also look at other potential cost deferrals, which would not be recurring and so it will be a good mix of all of the above, like we've done in prior years.

Garrick J. Rochow
President, CEO & Director

If I can just take a moment to just elaborate on this toolbox of opportunities, and Rejji characterized it well. It starts with conservative planning, right? That's part of our mindset. That's part of our approach. We're not redlining the engine here. This is just how we think about different scenarios. That's like point one. Rejji emphasized the CE Way. There's so much opportunity in the CE Way that our coworkers deliver on. And you take and improve a process, you take waste out, coworkers feel better, customers feel better and your costs fall out.

The other one that we've been really highlighting, too, is in the space of technology. The IT team calls it app realization. And I make fun of them when they talk about it because Iâ€™m like what the hell is that? But in reality is it's looking about all our software, all our hardware and how are we leveraging to get additional benefit out of it, where there's real savings there as well. And then you apply AI in some places, and we get better predictions, and that takes costs out as well. And then there was all the things that Rejji mentioned in his prepared remarks. And so again, I feel confident in just the ability to leverage these and a portion of them, a good portion will be sustaining. And as Rejji indicated, some will be onetime.

Operator

The next question today will be from the line of Jeremy Tonet with JPMorgan.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Just wanted to pick up with the gas case given what's come out so far, the appetite for settlement or just -- any other thoughts at this point? I know you said you'd be happy going either way, but just wondered any incremental color you could provide?

Garrick J. Rochow
President, CEO & Director

I'm going to even pull it back a little bit just with these words. I am very pleased with our track record of delivering constructive outcomes in Michigan. There's all kinds of data points, electric, 4 gas settlements, it doesn't matter electric or gas, we just continue to deliver time and time again. And in the Q4 call, what I shared was full throated a constructive â€œ as we'd see it constructive electric order. And how did I know that? One, is the quality and the visibility we put in this case, the constructive legislation we have. And it's not perfect, as I shared, but we continue to work on improving that. And then if you look at the Staff, the MPSC Staff are professionals. When you have a good Staff position or a constructive Staff position, you get good outcomes. And that's what we did. And that's another data point with this electric rate case. And I'm excited about this gas case as well. It is down the fairway or it's straightforward. We're replacing gas pipe. We're making the system safer -- like that's important from a gas business perspective.

We're ensuring capacity to deliver to customers and growth in the gas business. And when you do all that right, you also reduce carbon emissions. It's a trifecta, right? It's a great case the team has built straightforward. And so I'm excited about Staff's position. It is a constructive starting position within the gas case. And we'll go through the process. We'll go through rebuttal as we always do. ROEs, we're going to push on those. This is like if I look at the external environment, risk has not declined, right? And so we'll push on the ROEs and rebuttal. That will be an important piece for us to lean into. But as I said always, I'm open to settlement. There's a variety of different points of view and different interveners on that, and we'll work through that process. If we see that, I would imagine it would be before the PFD, that's expected in August time frame. But hear my confidence in our ability to go the full distance to and just continue the track record of constructive outcomes in Michigan.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Got it. No, that makes sense. Just want to pivot to a smaller point, if I could, the deferral. That's baked into the guide right now. Just want to be clear on the treatment there.

Rejji P. Hayes

Executive VP & CFO

Jeremy, this is Rejji. We have not presupposed approval of the deferred accounting order. Like I said, I think we made a very compelling case given the historic nature of the storm and our efforts to restore customers as quickly as possible, both inside our service territory and out. And so we think we've made a compelling case. But as you know, given our conservative nature, we have not presupposed approval of that.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

Okay. Got it. That's very helpful. And just last one, if I could. As it relates to ITCs in the unregulated part of the business, what's the magnitude of earnings exposure in your plan here? And really if you could outline a bit more how tax equity impacts this and any other relevant considerations and how potential tariff risk at the project level could influence growth here? I know you touched on it a bit before, but just wondering if you can flesh out those points a bit.

Rejji P. Hayes

Executive VP & CFO

Yes, Jeremy, I'll take this as well. This is Rejji. So I would say in the context of 2025 guidance, in our original guidance, we guided NorthStar \$0.18 to \$0.22. Given the planned large outage at DIG, which historically really going forward is the flagship earnings contributor to NorthStar. We are anticipating more contribution from commercial renewables projects, and we have 2 solar projects that are well on their way of delivering constructive outcomes later this year. And so I would say the exposure from a renewables perspective this year is a little bigger than other years or prior years. And so of that \$0.18 to \$0.22, assume about 3/4 of that is delivered by residual benefits from ongoing assets, a little bit of NorthStar, but primarily from 2 solar projects we have underway. As we look at the outer years of the plan, still an anticipation of solid renewable project development over the course of the plan. But again, you should always assume that DIG will be the primary contributor of earnings to NorthStar over the course of the next 5 years. Let me pause there to see if there are any questions on that.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

No, that's helpful. I'll leave it there.

Operator

The next question today will be from the line of Nicholas Campanella with Barclays. Apologies, we're not receiving audio from Nicholas' line there. So we're moving on to the next question being from the line of Julien Smith with Jefferies.

Julien Patrick Dumoulin-Smith

Jefferies LLC, Research Division

I hope I get a candid response from Garrick as earlier here. I think we're developing a new pattern. Just on economic development, I'd just love to understand how you guys are thinking about them. I heard the comments on the call with respect to data center activity and ongoing development year-to-date subsequent to the legislation. But in parallel, I also note the Gotion developments from the county Board here. How are you thinking about what's included in the 900 megawatts of demand in the current plan? Are there puts and takes in that? Or is it still kind of static pending some more formal updates here? Just to understand how you think about both the positives and the negatives that are accumulated year-to-date.

Garrick J. Rochow

President, CEO & Director

Yes. And so that 2% to 3% that makes up that 900 megawatts, that's a conservative approach. And you know that about how we plan. And so there is - in economic development always that even in the best of times, there's some slowdowns in some projects and some speed up in some projects. What's great about that 2% to 3% is we have like line of sight into that work. We're constructing the lines, we're constructing the substation. And in many cases, we can see them building their facilities and the long term plans they have for that. And so that's exciting. That gives us confidence in that 2% to 3% load growth. And there's always little puts and takes. And I shared, one of the data centers that we're constructing right now is actually accelerating their load growth and their ramp up, which is a positive sign and the same with the large manufacturing. And so to the degree there's a pause with Gotion, there's also some acceleration with some as well. And so that's all kind of in that mix to the 2% to 3%. Now if we go to the 9 gigawatts, as I shared in my prepared remarks, but let me offer a little more clarity, there's a lineup of data centers there of 65%. Some of them are moving faster and jumping the line and moving to the front of the line in the progress. And so that gives us a lot of confidence that those will materialize. But the next logical step in that process is get this tariff complete with the Commission. Again, I'm optimistic that settlement is an option there to be able to move those forward and for those data centers to take the next logical step. Does that help?

Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

Yes. No, absolutely. Actually, just to clarify that last piece since you bring it up. Just with the tariff here, you alluded to potential settlement, certainly a possibility in other states as well. Could that be paired up with a more formal commercial arrangement? Is that -- to the extent you get the clarity on the tariff, would that be sort of the catalyst to announce any larger commitments here?

Garrick J. Rochow
President, CEO & Director

Certainly, the data center projects and possibilities, want to have clarity on that in the context of that. Just from a special arrangement perspective, special contracts, we don't do those. That creates a lot of long-term risk particularly for the company and for shareholders. And so this tariff really is the best option. And as you might imagine, when they have clarity on what that looks like, that will be the next logical step in moving some of those projects forward.

Operator

The next question today will be from the line of Michael Sullivan with Wolfe Research.

Michael P. Sullivan
Wolfe Research, LLC

Just wanted to ask quick on how you're thinking about the risk of transferability potentially going away. I think you've given us some numbers on what you've embedded there in your plan, but just what that scenario would look like if you were to lose the ability to transfer tax credits?

Garrick J. Rochow
President, CEO & Director

Let me offer some high-level comments, and Rejji will get into some specific numbers. Again, many of the Republican jurisdictions, areas have benefited from the IRA. But what I think is even more important is the conversation that I'm having, part of the team is having, EEI is having with a number of Republican Congress men and women. And that is one, support for these PTCs and ITCs as well as the tax monetization or transferability component of it. Because you see in these times, the importance of affordability and how that transfers directly to savings for our customers. And that's been an important part of the conversation. And so that's what gives us -- we'll see how legislation takes place and how it all evolves, but that gives us some certainty, I guess, optimism about the ability to maintain PTCs and ITCs and this transferability going forward. But -- Rejji to offer some additional comments on the dollars.

Rejji P. Hayes*Executive VP & CFO*

Yes. So Michael, I appreciate the question. And just to talk about potential offsets or countermeasures, as I still see it, in the unlikely event we saw transferability go away. We would look at a variety of financing sources. And I think the good news in this environment and in prior environments is that the capital markets remain broad and deep. And so we would certainly look at more junior subordinated notes as a potential option. Clearly, there's quite a bit of capacity in the market there. And based on our even recent issuance of \$1 billion that I noted in my prepared remarks, we still have in this year alone, \$2 to \$3 billion of additional junior subordinated note capacity, and that amount of capacity accretes over time as your book capitalization grows through retained earnings. And so a lot of opportunities to potentially look at more junior subordinated notes. Obviously, we could look at doing additional equity as well. We feel very comfortable with the equity levels that we're issuing over this 5-year plan and still think we have capacity to do additional equity to fund this attractive growth opportunity we have at the Utility. And so incremental equity would also be a potential offset. And it's also important to note just the significant flexibility afforded to us through the energy law and the ability to earn on PPAs as we look to comply with the energy law and the significant renewable opportunities associated therewith, that creates a lot of balance sheet flexibility as well. And so as we look at subsequent 5-year plans, we may transfer or shift -- transfer is probably not the right word there, pun not intended. But we could look to potentially shift our spend mix from instead of investing and owning some of those renewable opportunities, we could potentially contract and earn about a 9% FCM on those, which obviously, again, creates a lot of balance sheet capacity. And so those are all potential countermeasures in the event transferability went away.

Michael P. Sullivan*Wolfe Research, LLC*

Helpful. And just to double check, the \$700 million plus number from the year-end call in terms of what's in the plan is still good?

Rejji P. Hayes*Executive VP & CFO*

That's still the current plan, yes.

Operator

The next question is from the line of David Arcaro with Morgan Stanley.

Alexandre Zimmermann*Morgan Stanley, Research Division*

This is Alex for Dave. So starting with the storm tracker, could you talk about the strategy going forward to get it approved? Is there any specific changes you're going to make to address the pushbacks?

Garrick J. Rochow*President, CEO & Director*

In reference, just for clarity for those who might be listening on the call, in a number of the previous electric rate cases, we proposed a storm tracker or storm recovery mechanism in those. We've heeded some of the comments from both Staff as well as the Commissioners on sharing and greater sharing of those mechanisms. Unfortunately, we have not had success in that mechanism. But we continue to look at options to be able to offset some of the costs. Again, I'd go back to the Liberty audit, which again recommends best practices for jurisdictions and utilities and ultimately for the customer is to have a mechanism in place for extreme weather. The storm recovery mechanism or tracker is one way to go about it. Another way that we're obviously filing for here and filed for this week is just through this deferred accounting mechanism for, again, regulatory treatment of historic or extreme weather.

Alexandre Zimmermann*Morgan Stanley, Research Division*

This is Alex for Got it. And back to the data center demand in Michigan. Did you see a big change in interest after the state approved the tax exemptions late last year?

Garrick J. Rochow
President, CEO & Director

That is correct. Of our pipeline, it was primarily about 65% manufacturing prior to the signing of the sales and use tax, and that flipped. The actual pipeline grew to 9 gigawatts and a majority of it, specifically about 65% of it is data centers as a result. And so we attribute that to, in part, due to the sales and use tax exemption. But also, there are other RTOs that have had some challenges. And so MISO continues to be an RTO and frankly, we have a nice energy law that supports the ability to put on the supply thatâ€™s needed and necessary for these important projects.

Operator

The next question will be from the line of Travis Miller with Morningstar.

Travis Miller
Morningstar Inc., Research Division

On the electric rate case, I wonder if there were any lessons learned or aside from the headline numbers, anything in the case decision that you'd like to go back for or you hoped to get anything like that? You mentioned the storm tracker, but anything aside from that?

Garrick J. Rochow
President, CEO & Director

There's always room for improvement in our cases. I want to be real clear. We've had a successful track record, but we're not perfect. There are a lot of opportunities for us to improve. We get the feedback from the Staff. We get the feedback from the Commissioners, and there's important work to do. One of the important comments that was made by the Commissioners when they provided the order was the mix of capital and O&M. And recall that in that case, the Liberty audit or the distribution audit kind of came midway through. And so we had the capital in there and the recommendations on tree trimming and vegetation management were not in there. And so you can imagine that in this next case that we'll have a greater degree and a greater amount of vegetation management, and we'll also match that with the important capital investments because it's both. You have to deliver the reliability and long-term resiliency. And so I would expect to see following our reliability road map, more capital investments, but also a much larger investment, too, in vegetation management to improve reliability for our customers. And so that's an area of improvement. There was also from the bench, a small thing in following where the dollars went. We got more granular in some of our bucketing so we could see the benefits of that work. And there was some feedback that you couldn't tick and tie as easily. So we're going to improve that as well and just make a key -- I'm in the weeds now, but just a key to be able to make that clear for interveners as well as the Staff and Commissioners to follow. So those are ways we're always looking to improve the process.

Rejji P. Hayes
Executive VP & CFO

Yes, Travis, all I would add, this is Rejji. Aside from a 10.25% ROE, which is on my personal wish list, the other subtlety or a smaller element of the filing that we did seek and unfortunately didn't get support for. But over time, I do think it would be helpful if we did propose a wildfire risk mitigation plan. And though Michigan is not as susceptible to a lot of states to the west of us to wildfire, we do think you cannot plan soon enough for wildfire risk mitigation. So we had \$12 million of capital ascribed to it, \$4 million of which was for strategic undergrounding, covered conductors was another bit of the spend and then what I would call strategic vegetation management. And so we do think over time, we'd like to start to put in place a program because, again, I don't think you can plan too soon for that. And so that was the other item on the wish list that we'd like to get support for going forward.

Travis Miller
Morningstar Inc., Research Division

Okay. That's great. I think we all have 10.25% on the wish list. So the REP, when you get that September ruling, what's kind of the next step? Would there be any immediate, I guess, disclosures from you or changes potentially in the capital plan? Or is that something that's going to evolve as you do perhaps RFPs or some other type of solicitations along the way? Anything that's going to happen, say, in September or October after the decision?

Garrick J. Rochow
President, CEO & Director

Well, it certainly gives us more clarity on the clean energy and a portion of the investments that are in the 5-year plan. There could be additional investments in that. And that again flows into the Integrated Resource Plan. And so you'll see that, that approval is important to build out the Integrated Resource Plan. And so those are the couple of components that you will see. And of course, we'll have greater clarity and certainty around what those renewable energy supply assets are.

Operator

The next question will be from the line of Gregg Orrill with UBS.

Gregg Gillander Orrill
UBS Investment Bank, Research Division

I wasn't quite sure I understood what the \$0.04 impact in the balance of the year related to the storm accounting order was. Sorry if I missed that.

Rejji P. Hayes
Executive VP & CFO

Yes. I'm not sure, Gregg, this is Rejji, where you got the \$0.04 impact. But just to walk through the details of the estimated -- and I say estimated because we're still doing all of the closing out of contracts and invoices from third parties who helped us. But as you'll see in the regulatory filing we submitted yesterday, the estimates for the storm was about \$100 million. And so call that \$0.25 per share of impact. And as you think about the waterfall I walked through for the bridge of financial performance over the course of the year, we are assuming a good portion of that storm impact will flow through that cost bucket or what we're calling specifically reliability storms, including productivity. And so the \$0.04 of negative variance that you see in year to go, when you add that to the \$0.05 of negative variance we saw in our year-to-date actuals, what you see is basically a \$0.12 per share swing versus our original guidance, and that basically adds up to about \$50 million pretax. And so we've baked into the assumption of additional service restoration expense, productivity in the form of CE Way, the CE Way and all the other cost-out items I enumerated in my prepared remarks. And so we're assuming that we're going to have an increase for sure in service restoration expense, but we will also net those down with cost reductions. We've also assumed cost performance as well in that Parent financing tax and other bucket. And so if you look at the comparison of what we have in our current waterfall versus our original guide, you'll see about \$0.11 per share or \$45 million roughly pretax of an improvement versus the original guide, and that's where you see the balance of cost takeout or support to fund the impact of that service restoration expense increase, and that's what gets us to our full year guide. So it's flowing through the cost associated with the service restoration expense is flowing through that reliability storms, including productivity line item. And again, the countermeasures are flowing through both of those sort of latter 2 buckets in the waterfall. Let me pause there and see if you have any further questions, Gregg.

Operator

Our next question will be from the line of Andrew Weisel with Scotiabank.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

Good luck settling the gas rate case. So if you make a 5 timers club, like Saturday night live, I think you get one of those cool black velvet jackets.

Garrick J. Rochow

President, CEO & Director

I look forward to wearing that jacket.

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

Just want to clarify, I think you kind of just answered this on the last question. But to clarify, are you already in cutting mode after that storm? Or are you just reminding us of your proven ability to do that?

Rejji P. Hayes

Executive VP & CFO

No, Andrew. We've gotten in the foxhole very early in the first quarter. I'd say once we start to get visibility that a significant storm is underway. And also -- even earlier in the month, we started to see pretty mild temperatures in the month of March. And so we already started to get in the foxhole and started identifying and implementing countermeasures really in the early part of March that are already well underway. And so this is beyond hypothetical and academic. We're in implementation mode. And so still more work to be done, but we're already in implementation mode based on the visibility we got earlier in the month and then as the storm started to materialize. Let me pause there.

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

I guess my question is, should this deferral be approved which, of course, would be a good situation, what would you do then? If you're already cutting costs and then you get the good news of getting this approved, what happens?

Rejji P. Hayes

Executive VP & CFO

Yes. So it certainly creates additional flexibility in the plan, which we like. And I'll remind you that the CE Way will be one of sort of the anchor countermeasures that we'll lean into and we see no downside in overachieving on our CE Way targets year in and year out because it just creates additional headroom going forward and rate reduction opportunities for customers going forward. And so there's no reason to dial back those efforts. We may take a harder look at some of the planned cost deferrals and some of the other measures, like I said, where we would limit hiring and some of the other sort of flex-related items that are more one-timers. And so it just gives us more flexibility to potentially turn back on those spigots in the event we get success there. But if we see opportunity to execute on recurring savings opportunities, we would obviously carry on with those. Does that make sense?

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

Yes, it does. Given the weather challenges, it's been a while since you were in invest mode as opposed to lean mode, but yes, that would be a good situation.

Rejji P. Hayes

Executive VP & CFO

Yes. One can only dream.

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

I think I asked -- Yes. kind of like the 10.25%. My other question, I think I asked you this after a storm a few years ago. What grade would you give yourselves in terms of reliability from this storm? I know, obviously, it's been a focus and the Liberty audit came out last year, but how would you evaluate the performance for the storm?

Garrick J. Rochow*President, CEO & Director*

Much, much better. And I would point to customers and policymakers, real positive sentiment with both. We're not seeing -- what we saw in 2023 was just a lot of aftermath after the storm, and we've improved greatly through process, through investments and we've got a lot of positive feedback. And so I don't want to be too boastful. And so I'm still kind of grade myself hard. So let's say like a B+. I still think there's room for improvement, but it's a lot different fact pattern than we had back in '23.

Operator

Our next question is from the line of Sophie Karp with KeyBanc.

Sophie Ksenia Karp*KeyBanc Capital Markets Inc., Research Division*

Yes, most of my questions have been answered, but maybe I can just ask a high-level question on the economy in Michigan. I guess the unemployment rate, which was a little elevated for the state. What are you seeing from your customers, if anything, in terms of what are they saying about the activity? Are they adjusting to the new kind of reality with the tariffs and everything else? Any color would be helpful.

Garrick J. Rochow*President, CEO & Director*

I still see a lot of positive indicators in Michigan. And part of it I talked about in the response to the question in my prepared remarks, particularly in the 2% to 3% load growth. The fact that data centers are accelerating, the fact that manufacturing customers are still moving forward with projects, and we can see that construction and then in some cases, asking to expand or at least in one case, asking to expand are promising indicators. But if I go right down to today, right, and remember, like when we follow the margin, and it's in the residential and commercial space, we still see solid performance there. And we do this.

And if we look into like permits and housing starts, and if you look at that Grand Rapids metropolitan area, permits, housing starts for single-family continue to increase, for multifamily and commercial continue to increase. And so those are positive indicators. The other one I look at is relocations is what we call it or alterations. Those are customer requested work for changes at their home or their business. And so maybe they need a larger meter to be able to serve their load. Maybe they need the meters move because they're putting in addition to their home or their business. That, of course, went up in the pandemic as people went home and invested in their homes, and that is still elevated. That's still above pre-pandemic levels, which is another good indicator about people investing in businesses, in their homes, particularly in the residential and commercial space. So that gives us a lot of confidence that the sales piece of resi and commercial continue to be -- and where the margin is to continue to be solid.

The other thing I'll point out is there's always pluses and minuses when you get in the industrial space, and I talked about that a little bit with Julien and the Gotion piece. But when I look at our mix and how diversified Michigan is, and we surprise people with this number sometime, there are 4,000 businesses in Michigan in the aerospace and defense industry, 4,000, including now Saab in our service territory. And so in this federal administration, you can make a strong bet that defense spending is going to increase. And so that's a real positive for Michigan.

The other one I'd like to point to is that we're the second most diverse state from an agriculture perspective. And what we've seen over the last 10 to 15 years is more of that processing of food move closer to the fields, move closer to the farm. And as a result, there's a lot more processing and manufacturing of food, and that's growing in this environment, like even in the worst scenario, even in the worst scenario of a recession, people still need food, bread, milk and those dairy products. And so a long-winded way of saying, we still see a lot of positive indicators in our service territory, which gives us a lot of confidence of Michigan and the forward look.

Operator

And that concludes our Q&A. So I'd now like to hand back to Mr. Garrick Rochow for closing remarks.

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Garrick J. Rochow

President, CEO & Director

Thanks, Harry. I'd like to thank you for joining us today. I look forward to seeing you at the upcoming AGA Financial Forum. Take care and stay safe.

Operator

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

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