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DTE - Q1 2012 DTE Energy Company Earnings Conference Call

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OVERVIEW:

DTE reported 1Q12 operating EPS of $0.91. Expects 2012 operating EPS to be $3.65-3.95.

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Andy Levi *Avon Capital - Analyst*

Ashar Khan *Visium Asset Management - Analyst*

PRESENTATION

Operator

Good day and welcome to the DTE Energy first quarter 2012 earnings release conference call. Today's call is being recorded. At this time I would like to turn the conference over to your host, Mr. Meador.

Dave Meador - *DTE Energy Company - EVP, CFO*

Good morning, everybody and welcome to our first quarter earnings call. Before we get started I encourage you to read the Safe Harbor statement on page 2, including the reference to forward-looking statements. With me this morning are Peter Oleksiak, our Vice President and Controller, Nick Khouri, our VP and Treasurer, and Mark Rolling, Director Investor Relations. I also have members of the management team with me if needed during the Q&A session.

If you turn to page 4, this morning we're going to cover our first quarter results, and we'll also discuss the recently filed rate case at MichCon. We'll be at the AGA financial forum on May 7 and 8, and we'll take that opportunity to update you on some of our growth projects at the two utilities, as well as the gas storage and pipeline's Bluestone project and the Power and Industrial Reduced Emission Fuels business line. We're expecting a high today of about 55 degrees here in Detroit.

Actually, it's a nice, sunny day, which is consistent with what would you expect here in Michigan in April. This is a sharp contrast to the first quarter where we experienced anything but seasonal weather. Similar to many other parts of the country, the MichCon service territory saw one of the warmest winters on record. The mild temperatures were great news for our customers in the form of lower utility bills, but as you've seen in our recent press release, the warm weather had an impact on the first quarter. We did include about $8 million of that weather from January and early February when we provided guidance.

So, with that said, let me start on page 5. We have a disciplined growth plan that will provide 5% to 6% long-term earnings growth per share, and when you combine that with our attractive dividend it provides a 9% to 10% total shareholder return. All of this is set around one of our North Stars, and that is maintaining a strong balance sheet. Both of the utilities have robust growth plans.

At Detroit Edison, as we have laid out for you, the growth is driven primarily by mandated environmental controls and renewable energy, while at MichCon the growth is driven by infrastructure investments, including a long-term cast-iron main replacement plan and a program to move gas meters out of customer homes. The importance of these infrastructure investments is evident in the rate case that we filed last Friday at MichCon.

We have a very constructive energy legislation framework in Michigan and also a regulatory structure, and we see it as our responsibility to earn that favorable construct every single day. We utilize continuous improvement capabilities in everything we do to ensure that our utilities are controlling costs and minimizing rate increases to our customers and also ensuring great customer experiences.

Many of you have heard us talk about our intense focus that we have on continuous improvement. This is something we've been working on for many years, and I will talk more about that when I talk about how we're going to offset weather this year, but it's something we take great pride in. As we look at the challenges of the quarter, we are going to use this continuous improvement program as a lever to help pull us in line with what our goals are for the entire year. We continue to see attractive growth opportunities in our non-utility businesses, both at the Power Industrial projects and Gas Storage and Pipelines, and as I mentioned, we'll give you a more detailed update on that at AGA in just over a week.

On page 6 is an overview of the quarter. In the face of the unusually warm winter, DTE Energy had operating earnings per share of $0.91, compared to $1.11 in the first quarter of last year. Detroit Edison earnings were flat year-over-year while MichCon's earnings were down significantly due to the weather. Earnings at Energy Trading were down a little from last year and we are reaffirming our full-year operating earnings per share guidance of $3.65 to $3.95, and we're targeting the midpoint of $3.80.

We'll leverage our costs and revenue opportunities across our portfolio of businesses to offset the first quarter weather. As we've indicated, it's a priority for us and our balance sheet continues to remain strong. We generated over $600 million of cash from operations from the first quarter and Nick will talk about that a little bit later in the call.

Turning to page 7, with the first quarter behind us, I would like to take a few minutes to take you through how I am thinking about our full-year 2012 guidance. With the final order in the Detroit Edison rate case last fall, we are expecting earnings to be relatively flat year-over-year, and this is consistent with our original guidance that we provided you. As you know, the summer cooling months and storm activities are drivers of results of Detroit Edison, and much of that still lies ahead of us. Assuming normal weather, I am confident that Detroit Edison will hit its target, and they actually might get slightly above midpoint.

With the biggest part of 2012 heating season behind us, MichCon is going to need to work hard to reach its guidance range for the year, but with continuous improvement and potential one-time cost actions, the bottom end of the range is achievable. Gas storage and pipelines continues to provide solid earning streams. Additionally we're looking at some revenue opportunities here in this business to help offset the challenges at MichCon.

Year-over-year, we're expecting reduced emission fuels, or REF, as we call it, to deliver a nice bump in operating earnings at the power and industrial projects. We're also looking at revenue enhancement opportunities in this business to offset the first quarter weather and other business units. For GSP and the power and industrial group, we're looking to drive both of those to the high end of their guidance range.

As Peter will explain in a few minutes, Energy Trading saw a small loss for the first quarter and that was also driven by unprecedented warm weather across the country. Our expectation for this business is to deliver results over the next three-quarters similar to annualized historical levels, thus making it achievable to reach the low end of their guidance. We expect the holding company to have improved results over last year, and that's driven mainly by lower interest rates. In total, we remain committed to our original earnings per share guidance of $3.65 to $3.95 and target the midpoint of $3.80.

Now turning to page 8 is an overview of the rate case that we filed last week at MichCon. MichCon has gone nearly three years without a base rate increase. Recall we filed a case in 2010 and then we withdrew it when we determined that we could achieve our authorized return on equity without additional rates. The current rate filing is just for under $77 million. That equates to roughly a 4% increase annually in base rates since the last rate increase.

When you couple this with the declining natural gas prices, the typical residential customer will see a lower bill in 2013 compared to recent years. This combined equates to an annualized 5% decrease in residential bills. The two biggest drivers in the rate case are capital investments and lower sales. We're seeing lower midstream revenue at MichCon and continued customer conservation since our last rate case, and we continue to make investments in our aging infrastructure.

Other highlights of the case include a simplified decoupling mechanism, an authorized return on equity of 11%, which is consistent with MichCon's current authorized level, and maybe the most important element of this case is a proposal to implement an infrastructure recovery mechanism to support the investments needed in replacing cast-iron mains, moving gas meters out of customer homes, and continuing the pipeline integrity work in our transmission system.

Before I hand it over to Peter, I would like to also provide you an update on recent developments at Detroit Edison. As many of you have seen on April 10, the State of Michigan Court of Appeals issued a decision relating to an appeal on the January 2010 MPSE order. The two items of interest here are the revenue de-coupling mechanism, or RDM, and AMI, the automated meters.

First regarding the RDM, the court determined that the MPSE exceeded its authority when it authorized Detroit Edison to adopt a revenue de-coupling mechanism. As of March 31, 2012, Edison had accrued on its book a regulatory liability related to the pilot RDM, which predominantly represents weather in prior periods. The MPSE has until May 22 to appeal the decision to the Michigan Supreme Court and they are collecting comments through May 18.

We will comment as part of that process, but ultimately we are going to have to take the lead of the commission, so we're waiting to see how the commission plans to proceed on this. We've always been supportive of an energy efficiency-only mechanism and when coupled with a well functioning energy efficiency incentive program, we've been supportive of that. If this is appealed by the MPSE, it could take some time before we learn if the Supreme Court will hear the appeal. If the appeal is taken, it is likely that process will take months to years before it is completed. We are going to continue to maintain the RDM liability on our books, and we also will not be implementing the 2012 RDM until we get further direction.

The second item of note is the court's decision as it relates to AMI. Back in January 2010 the MPSE approved the inclusion of $37 million in rate base related to the AMI pilot program. However, the court found that the record of evidence in the case was insufficient and has remanded this to the MPSE for further review. We have provided the cost benefit analysis of the AMI program and we believe this will be resolved in a positive manner. With that background, let me pass it over to Peter and he will take you through the quarter with some additional comments.

Peter Oleksiak - *DTE Energy Company - VP, Controller*

Thanks, Dave and good morning, everyone. I'd like to start with Slide 10 and the first quarter earning results. For the quarter, DTE Energy's operating earnings were $0.91, consistent with reported earnings. Detroit contributed $0.56, and MichCon, which was effected by the unusually warm weather, came in at $0.31. The non-utility segments combined to earn $0.13. The drivers for the non-utility first quarter results were gas, storage and pipelines at $0.10, power and industrial projects at $0.05, and both energy trading and unconventional gas production at a loss of $0.01 each. Finally, corporate and other had a loss of $0.09 in the quarter.

Let's move to slide 11 and a summary of the quarter-over-quarter performance by segment. Operating earnings for consolidated DTE Energy are down $32 million for the quarter. Detroit Edison's operating earnings are $96 million, down $1 million from the prior year. I will cover more details on Detroit Edison in a moment. MichCon, which typically has a strong first quarter, had operating earnings of $52 million, down $31 million from prior year, with two-thirds of this variance due to the warm weather in 2012 and one-third driven by colder than normal weather in the first quarter of 2011. In other words, the whole variance is due to weather.

Our non-utility segment in total are down $3 million, driven primarily by the change in our earnings at our trading segment. Similar to our gas utility, our trading business was also impacted by the unusually warm weather. In particular, this impacted our full requirement services transactions, which historically has produced solid earnings. In the first quarter of this year we saw weather that was close to three standard deviations. We priced our full requirement fields and hedged a physical commodity assuming some weather volatility, but not to the extreme as we experienced. In the first quarter the Business saw lower margins and the lower volumes, and was long on power and gas hedges in a low price market.

Page 21 of the appendix contains our standard energy trading page which shows both economic and accounting performance. In addition to the lower margins on the existing deals, the level of economic margin on new deals was also down this quarter in comparison to the same period last year. Keeping on the same page and moving to the power and industrial project, this segment was down $2 million. Last year in the first quarter there were some lumpy earnings related to the early extinguishment of an on-site energy contract that shows up as a year-over-year variance.

As Dave indicated earlier, our growth plans for the P&I business are on track and we are comfortable with achieving the full year guidance in this segment and driving towards the upper end. Gas storage and pipeline earnings are up slightly from the prior year due to the growth in the pipeline transportation revenues. Finally, corporate and other was up $3 million from last year due primarily to the refinancing activity done last year at historically low interest rates.

Now I would like to turn to page 12 to walk through some quarterly details for Detroit Edison. Operating earnings for Detroit Edison are $96 million, down $1 million from prior year. There are a lot of ins and outs with this segment this quarter. Margin for the quarter is up $9 million, driven primarily by the 2011 rate order, partially offset by warmer winter weather. In the supplemental package we provided the earnings release you will see that actual sales for the quarter are down 3% year-over-year, quarter-over-quarter. This decline represents the impact of weather on the electric-related heating load.

Absent the weather impact, load was relatively flat for the quarter and we are forecasting approximately a 1% increase for the total year. Industrial sales were up 1% in the quarter, which is a continued indication of the improving economic activity for Michigan. Another item to note is O&M for the quarter impacted earnings by $8 million, primarily due to increased weather related customer restoration activities and an increase in benefit expense, which we anticipated with lower discount rates.

That concludes an update on our earnings for the quarter. I would like to turn the discussion over to Nick Khouri who will cover cash flow and capital expenditures.

Nick Khouri - *DTE Energy Company - VP and Treasurer*

Thanks, Peter. As always, improved cash flow and balance sheet strength remains a key priority for management and Board of Directors. Through the first quarter of this year DTE Energy's cash and balance sheet metrics are on track to hit our full-year goals. Page 14 summarizes those balance sheet metrics. We expect to end this year well within our targeted leverage and cash flow ranges.

In addition, we appreciate a series of credit improvements by the rating agency so far this year, including an upgrade at Fitch and a positive outlook at Moody's. As discussed in prior calls, we are on track to issue $300 million of new equity in 2012 through a combination of employee compensation, dividend reinvestment, and pension contributions. Finally, liquidity remains strong with over $1.4 billion of available liquidity at the end of the quarter.

Page 15 provides an overview of DTE's cash flow in the first three months of this year versus the same period last year. Cash from operations at $600 million was down slightly from last year, reflecting higher tax payments this quarter. As expected, capital is up compared to last year, which I will detail in a minute. All told, net cash, after dividends, was a positive $100 million in the first quarter.

Page 16 details capital spending. So far this year, total capital at DTE is up sharply from the prior year. Some of the increase is timing, for example, capital spending related to the scheduled refueling at Fermi, but overall spending so far this year is consistent with the 25% year-over-year increase we expect in 2012. In the first quarter, capital was higher in all our business units, including renewable investment in Detroit Edison and non-utility capital in our Gas Storage and Pipelines and Power and Industrial business line.

In summary, DTE's cash and balance sheet targets are on track, supporting higher levels of investment across all our business. Let me turn it back over to Dave to wrap up.

Dave Meador - *DTE Energy Company - EVP, CFO*

Thanks, Nick.

Let me wrap up on Slide 18. As with many in the industry, the first quarter of 2012 was a challenging one. However, we see this as an opportunity to improve as a Company. When we talk to our employees about our goals for the Company and the challenges we face, we talk about working to make DTE Energy the best operated energy company North America and a force for growth and prosperity in the communities we live and serve. This is an opportunity for us to get better at everything that we do, and I have confidence, as we've seen in the past, that our employees will help us get there.

Additionally, we continue to make investments necessary to drive our long-term growth, and we look forward to sharing more details of our plans at AGA in early May. We're scheduled to deliver our presentation on Monday, May 7, at 2.15 PM Mountain Standard Time, or 5.15 PM for those in the Eastern time zone that might be calling in.

With that, we would be happy to take questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

A lot of your unregulated businesses are tied to coal, and obviously that market has softened up. What are you seeing? How is that impacting your businesses? Are you seeing any impact on the appetite for the REF program as you seek out partners? With gas prices down, how is that impacting the Barnett process?

Dave Meador - *DTE Energy Company - EVP, CFO*

If you look at what's going on with low gas prices and then the impact on coal and think about DTE, actually one of the things that we've enjoyed over the years is our portfolio of businesses do have different drivers, and because of the way we're contracted and so on, it's really worked out well for us. You take the midstream business as an example, where we have long-term contracts with tenures of seven to eight years on the pipes and storage, and there's not only no impact there, we're actually seeing an opportunity near-term on short-term storage deals.

If you went over to the power and industrial business, there is really no impact related to coal prices at power and industrial. Actually what we're seeing is some opportunity to sell some of our coke battery output that was not contracted for. Longer term, these gas price environment actually is an opportunity for that business, and I think will you hear Jerry talk more about that at AGA, but a low gas price environment would give that group an opportunity to look at some new growth opportunities down the road.

When you go over to Barnett, I think we have to stop thinking about this as gas play. If right now we are drilling specifically for oil in the Marble Falls and 80% of the revenue is coming from oil and natural gas liquids, and so we are exiting that business, but we're exiting on oil and NGLs, not on gas.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Looking at your income statement and cash flow statement, it looks like there was some gains and charges. Can you give some more color as to what those were?

Peter Oleksiak - *DTE Energy Company - VP, Controller*

There was an impact last year in the first quarter. If you recall, we did talk about it. We had an original unit down at our Fermi site that we took a charge, earlier as a retirement accounting that we took there.

Dave Meador - *DTE Energy Company - EVP, CFO*

Was there something more specifically?

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

I've got it right in front of me. I will follow up off-line.

Peter Oleksiak - *DTE Energy Company - VP, Controller*

When I looked at it, that's the one that popped out on the statement, that retirement charge last year.

Operator

Leslie Rich, JPMorgan.

Leslie Rich - *JPMorgan - Analyst*

I wondered if you could help me understand de-coupling at the gas utility. I was under the impression that you had de-coupling there, so I'm surprised that the mild weather had such a big impact on net income.

Peter Oleksiak - *DTE Energy Company - VP, Controller*

Yes, the de-coupling that was implemented at the gas utility was really a usage based de-coupling. Actually weather did flow through that de-coupling mechanism. It really is working as designed. The weather does flow through.

Dave Meador - *DTE Energy Company - EVP, CFO*

That has never included weather protection at the gas utility.

Leslie Rich - *JPMorgan - Analyst*

Then on the electric, because of the court decision, you won't collect or accrue for any de-coupling there going forward?

Dave Meador - *DTE Energy Company - EVP, CFO*

Basically what the court said was that the 2008 law was very specific about authorizing gas de-coupling, but was silent on electric so the judge concluded that the MPSE didn't have the authority. I think the way you have to think about is there is no de-coupler right now. Again, we'll have to wait for the MPSE to take a position. Whatever happens would be a prospective issue, anyway. Unless, for example, if the MPSE decided to appeal and the Supreme Court overruled the judge, then this could still be in place. We don't know exactly what the MPSE will do, and if they did appeal it's uncertain whether the court would hear it, and if they did hear it, ultimately what the outcome would be.

Leslie Rich - *JPMorgan - Analyst*

With low gas prices and dark spreads being compressed, are there any thoughts in terms of your CapEx program on scrubbers or your overall generation mix over time?

Dave Meador - *DTE Energy Company - EVP, CFO*

No, not at this time. As you know, we've laid out our environmental program. At AGA, I think Jerry will be talking a little bit more about the ongoing testing we're doing with DSI, but right now, when we look outgoing forward, our environmental program as we see it is not going to change.

Operator

Kevin Cole, Credit Suisse.

Kevin Cole - *Credit Suisse - Analyst*

Dave, could we rehash Slide 7, the guidance slide to make sure I have this right. For Detroit Edison you expect in to the mid range of the guidance, and then --

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Dave Meador - *DTE Energy Company - EVP, CFO*

Mid range, and possibly slightly above midpoint. If you did the walk down here and said that MichCon, we're driving to the low end of the range, gas storage and pipelines we, as I indicated, we're seeing some opportunity and some near-term storage deals, and we're going to work hard to drive that to the top end there. The power and industrial business, we see driving to the top endless there.

Kevin Cole - *Credit Suisse - Analyst*

With trading, if I remember right, this time last year you were able to give us some hard numbers, or pretty good color on the shaping for the rest of the year. Is that more of an AGA event or do you have any commentary like that available?

Dave Meador - *DTE Energy Company - EVP, CFO*

We'll certainly talk more at AGA, but our sense right now is if you look at historical numbers for the remaining three-quarters, we feel that we will be able to get to the low end of the range. You've got to keep in mind that what we saw in trading here was specifically weather driven. It's something that we see, really a third standard deviation event around FRS deals. There would be no -- I view that as a one-time event, not a recurring event.

Peter Oleksiak - *DTE Energy Company - VP, Controller*

There may be some lumpiness in the remainder of the year by quarter, and a lot of that, we have roll-on accounting which we reserve and then release as the deals are done. As Dave said, if you take the remainder of the year, looking at historical level of activity, we're comfortable with the low end.

Kevin Cole - *Credit Suisse - Analyst*

Seasonality is always kind of tough in the business. With REF, we've been hearing some more chatter from a few of the larger Midwestern utilities that they're looking at that technology. Can you offer any color on the footprint that your license allows?

Dave Meador - *DTE Energy Company - EVP, CFO*

We've said before the counter parties that we're talking to are Midwest utilities, and we've also said we know there's some other competing similar technology, but we are also making progress on the four relocations. Again, I would expect an update at AGA, but if you look at 2012, just backing up, there's nine machines, and five basically are driving the earnings for this year, and then we're going to relocate the four. We expect to be able to give you more insights on the four at AGA, but think about the four as the driver to 2013 earnings, not 2012.

Kevin Cole - *Credit Suisse - Analyst*

The up side would be achieved through 2012 that we described earlier, that's just through more volumes being put through than expected?

Dave Meador - *DTE Energy Company - EVP, CFO*

The up side on power and industrial businesses is coke sales that we hope to be locking in soon, but we've also said to the extent we can accelerate, there's a timing issue on the four relocations, if you accelerate, we'll pick up additional tonnage this year.

Operator

(Operator Instructions). Brian Chin.

Brian Chin - *Citigroup - Analyst*

Going back to the de-coupling mechanism and the MPSE appeal, we were under the impression that either you guys or the MPSE could appeal the decision. Listening to your comments, particularly in response to Leslie's questions, it sounds like you may not want to appeal it, or -- can you just give a little bit of color on depending on how the MPSE appeals process goes, are you guys intending to appeal it as well?

Dave Meador - *DTE Energy Company - EVP, CFO*

The ball is really in their court. Because they're taking comments right now, I don't think they've indicated what they're going do. If this is appealed, it's likely going to be appealed by the MPSE.

Brian Chin - *Citigroup - Analyst*

It's not as though you guys would have your own appeal largely. Even though you have the ability to appeal it, you'd watch to see what the MPSE does, and use that as -- that's a good appeal as the whole process?

Dave Meador - *DTE Energy Company - EVP, CFO*

I think that's the right way to characterize this. As we said, we were happy with a revenue de-coupling mechanism to address energy efficiency. We think going forward you could address energy efficiency through another mechanism. For example, you could have an EE tracker that works with an incentive program that gets you to the same place. I don't know if they will consider.

Again, right now we're just in a comment period. If we did not have de-coupling, we've also said that even though it slightly makes the risk profile for the Company higher, we've always had the ability to file rate cases and self-implement. Because of the level of capital, we'll be in regular rate cases. We were okay with the de-coupling mechanism, and if there wasn't one, we would be okay also, but we'd be very interested in something that would specifically address energy efficiency.

Brian Chin - *Citigroup - Analyst*

If the de-coupling mechanism ultimately goes away and before you guys have the ability to put in something like EE tracker, if I remember right, I think there's a regulatory liability on the books that might be released. Could you talk about that, what would happen on the balance sheet if that de-coupling mechanism were to ultimately go away?

Dave Meador - *DTE Energy Company - EVP, CFO*

It's really too early right now. We do have a liability accrued on the books, and what the MPSE might do, for example, whether they would appeal, whether the Supreme Court would hear this, what the Supreme Court ultimately does, I think we've taken a position. It's too early to speculate on what might happen with that liability. As we get more insights to that, certainly we'll know in May what the MPSE's position is then we can provide you more color on that.

Operator

Paul Patterson, Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

With respect to the weather impact on kilowatt hour sales, I saw the revenue impact but I wasn't clear on what the weather-normalized growth would have been in your best estimation if you backed out the impact of weather and the leap year.

Peter Oleksiak - *DTE Energy Company - VP, Controller*

The impact of the leap year for the total year is immaterial. It is one extra day in the quarter. There's probably close to 1% impact in the quarter, but by the end of the year it's noise. When you looked at it, and I know you will see in the supplemental we provide the actual sales. I'll take it class by class.

First in the total, actual sales are down 3%. Residential sales was down 5%. I'd say that was predominantly weather. If you temperature normalize that it would be relatively flat in the quarter. Full year for residential, we are looking at a relatively flat. Our energy efficiency programs really are targeted at that segment. That's our assumption right now that it will be flat on a temperature-normalized basis.

The industrial sales, actually this class is pretty weather insensitive, and it was up 1% for the quarter. For the total year, right now our projections is the 2% growth for that. The 1% actually is in line with that and maybe a little bit higher than we're anticipating from a run rate perspective. The commercial sales was down 3% in the quarter and, once again, we look at that as all weather. We do see a little bit of uplift on a temperature normalized in the quarter, and then the full year is about a 0.5% that we're going to be anticipating on a temperature normalized basis.

Paul Patterson - *Glenrock Associates - Analyst*

There is a lot of talk about Detroit having its fiscal problems. How should we think about the impact on you guys if there is any? A, what do you think the outlook is there if you care to posit an opinion there? Also, how should we think about that as being a potential impact on sales or any impact on you guys, if there is any?

Dave Meador - *DTE Energy Company - EVP, CFO*

I think Detroit right now, we have a great governor and mayor. They're working together to work through this issue, and I am more optimistic about not only Michigan, but more optimistic that Detroit is going to pull out of its issues, than I have been in a long time. We're seeing some real interesting economic development. We're seeing a lot of young professionals move into the city, and there's some real positive signs.

If you look at us directly, Detroit is a very, very small piece of our business. The city itself is current on its bill, so I don't see any direct dollar risk there. It's something that we do what we can do, because it's part of our corporate aspiration here, to be part of the growth in Michigan and Detroit, to do what we can do to be helpful with both the city and the state.

Paul Patterson - *Glenrock Associates - Analyst*

On the REF and the coke sales and everything, you guys will give us more detail at AGA? Can you give us any sort of flavor as to what we might be seeing or --

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Dave Meador - *DTE Energy Company - EVP, CFO*

On the coke, we just have a small portion of coke that is not contracted, because those coke batteries are contracted out to 2014, '15, and '16. There was a small portion that was open that we're going to take advantage of current prices to lock in, and the way to think about it, it will help drive that business to the high end of their guidance, is what it will do. On REF, we are actively negotiating with potential host sites, and I think by the time we get to AGA, Jerry will be able to give you more insights on that. We have objectives to have those machines relocated during this year, basically to be in place to help drive 2013 earnings, and right now everything looks like it's on track.

Operator

Andy Levi, Avon Capital.

Andy Levi - *Avon Capital - Analyst*

To understand, for your forecast for sales, it's 0% residential, 2% industrial, and 0.5% for commercial?

Peter Oleksiak - *DTE Energy Company - VP, Controller*

That is correct. All in, I did mention it's about a 1% all-in, before energy efficiency, that impact is about 0.5% for us.

Andy Levi - *Avon Capital - Analyst*

These numbers are all before energy efficiency?

Peter Oleksiak - *DTE Energy Company - VP, Controller*

They include the energy efficiency.

Operator

[Luthaman Origanji], Catapult.

Unidentified Participant - *- Analyst*

Wanted to ask about this customer restoration expense that drove up this quarter. Is that going to be recurring? Or is that one-time?

Peter Oleksiak - *DTE Energy Company - VP, Controller*

This is something that we put in our guidance at full year forecast. Storm and restoration costs are typically lumpy throughout the year, but when you look at it on a total year basis, there's some consistency. When we do our planning process, we look at basically recent history and averages around that. Having said that, we did see larger than traditional in the first quarter, and actually weather related about three times as many customers were impacted. Some of this ties back to that warmer weather that we saw that really impacted the MichCon business, but we did see increased storm activities that we normally do not see in the first quarter.

Operator

(Operator Instructions). Ashar Kahn, Visium Asset Management.

Ashar Khan - *Visium Asset Management - Analyst*

On the MichCon rate case, can you just give us, what is the 100-basis-point sensitivity to the revenue requirement?

Don Stanczak - *DTE Energy Company - Regulatory Affairs*

MichCon's equity is about, as I recall, $500 million.

Ashar Khan - *Visium Asset Management - Analyst*

$500 million in this case. That would be like what --

Don Stanczak - *DTE Energy Company - Regulatory Affairs*

I'm sorry, it's $1 billion. 1% would be about $10 million.

Ashar Khan - *Visium Asset Management - Analyst*

1% would be about 10 million.

Don Stanczak - *DTE Energy Company - Regulatory Affairs*

After tax. If you pre-tax that up, it could be about $15 million.

Ashar Khan - *Visium Asset Management - Analyst*

You mentioned cap structure and ROE. What's happening in the cap structure? Is there more equity in there or what from before?

Don Stanczak - *DTE Energy Company - Regulatory Affairs*

Deferred taxes is really what's driving the reduction. Deferred taxes are up. That's why the change in capital is a reduction in revenue requirements.

Operator

Brian Chin, Citigroup.

Brian Chin - *Citigroup - Analyst*

One more question on the RDM. While it's in a little bit of appeal limbo right now, if load recovers, does that go with some type of regulatory asset, or do you actually get the benefit from that in the interim while we're waiting for all this?

Peter Oleksiak - *DTE Energy Company - VP, Controller*

From an income perspective right now, we are accounting that we do not have an RDM. Any type of load increase or margin increase would flow to the bottom line. Have having said that, we did have weather impact the first quarter for Edison, but even this year, the load increase, I would look at it as offsetting that first quarter weather.

Operator

Paul Ridzon, KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Is one of the potential fixes around de-coupling to have the legislature insert the word, quote-unquote, electric, into the energy bill? Is that feasible?

Dave Meador - *DTE Energy Company - EVP, CFO*

I don't think this requires or anyone would want to go a legislative route. That would be a lot of heavy lifting. I think it would be a lot easier, if they choose to do it, it would be a lot easier to adjust the regulatory mechanism. Again, I don't know what direction the commission will take on this, but you could modify the energy efficiency incentive program that's already in place, just to account for the over and under on energy efficiency load, as an example. It would be a much easier path to handle this through a regulatory path than to ever go legislatively.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Back to my question, I'm looking at the cash flow statement you've got, it looks like a $19 million gain in there. The third line down after net income.

Dave Meador - *DTE Energy Company - EVP, CFO*

We'll have to get back to you. I suspect you are going to find it's a number of small things, as we continue to press on cash and make sure that we're optimizing our cash flows.

Operator

That does conclude our Q&A session for today. Mr. Meador, I will turn the conference over to you for any additional remarks.

Dave Meador - *DTE Energy Company - EVP, CFO*

Thanks again for joining us. Hopefully we've laid out the year for you. We're pretty confident with all the actions that we're going to take on the revenue and the cost side that we will be able to deliver on our commitment of $3.80 a share. As a reminder, again, for those that won't be at AGA but would like to listen in on the webcast, it's on Monday, May 7, at 2.15 Mountain Standard Time, or 5.15 for those of us in the eastern time zone. Thank you, and for those of you that will be at AGA, we look forward to seeing you there. Have a good day.

Operator

Ladies and gentlemen, that does conclude today's conference. We thank you for your participation. Have a great day.