

FINAL TRANSCRIPT

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DTE - Q1 2009 DTE Energy Company Earnings Conference Call

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Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the DTE Energy first quarter 2009 conference call. This call is being recorded.

At this time I would like to turn the call over to Mr. Dave Meador. Please go ahead, sir.

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

Thank you, Laura, and good morning, everybody., and welcome to our first quarter 2009 conference call. As we get started I would encourage everybody 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 Vice President and treasurer; and Lisa Muschong, our director of investor relations. I also have members of the management team with me this morning that I might call on to answer questions during the Q&A session. With that background let me start on Slide 5 with an overview.

As we have laid out for you we believe that we're well-positioned during these unprecedented times. Our goal is to achieve strong results in this challenging environment. Our objective is to use this crisis as an opportunity to get better at everything that we do, and that's everything that we do to serve our customers and all of our internal processes, and also getting better

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

in terms of financial performance in our balance sheet. We've planned conservative -- conservatively for 2009, and with a quarter of the year behind us our plan is working and I think it was evidenced in the results that we released last night.

The 2008 Michigan legislation provides key new tools to enable us to file and implement rates on a forward-looking basis, and we will be doing that at Detroit Edison in July of this year. And the renewable energy and energy optimization programs will start this year with dedicated funding mechanisms. Our plans are -- for 2009 are based on realistic assumptions and our goal for this year is to preserve solid earnings and keep our cash flow and balance sheet metrics strong. This will position DTE Energy to continue its growth as the recession ends. Our dividend is \$2.12 a share and that's well supported and provides an attractive return in today's market.

With that, let me turn to Slide 6, provide an overview of 2009 first quarter, and then Peter will provide you more details in a moment. I am pleased in this environment to report these results. We achieved operating earnings of \$1.10 per share versus \$0.70(Sic-see press release) per share last year. This was driven by proactive cost reductions at our utilities, where our operating O&M was down almost \$50 million quarter over quarter. This is further evidence that our continuous improvement process that we've been talking a lot about is working. We had solid results on our non-utility businesses, and this was driven by gas midstream and our trading operations. We also generated \$500 million in free cash flow and achieved a key milestone for us in successfully renewing and upsizing the expiring portion of our credit facility for \$1 billion. Also during the quarter all three rating agencies confirmed our ratings. Now let me turn to Slide 7.

Our 2009 plan remains on track, with guidance of \$2.75 to \$3.05 per share. We've laid out the economic pressures for you, which are shown at the top of the slide here. Our assumptions include a 6% load decline at Detroit Edison, ongoing automotive and steel industry uncertainty, higher benefit costs, and a rate freeze at MichCon, which will end later this year. We'll be filing a case at MichCon this summer and then we'll be self-implementing rates early next year. Offsetting those factors is our \$100 million cost reduction plan, which is on track, and again, that's evidenced by our O&M expense in our financial statements quarter over quarter. Also, the December 2008 electric rate increase, and then the mid-year self-implementation at Detroit Edison that we will do in July. Now turn Slide 8.

We know that there are a lot of questions about what you read about daily in the newspapers, including today, about the auto companies and the potential impact on DTE. We believe our 2009 planning assumptions encompass much of what you see playing out in the news every day, but it's also true that projecting secondary and tertiary impacts on DTE are difficult. Our tools to deal with those impacts are ongoing cost reductions and regular rate cases with six months' self-implementation. It's hard for anyone to predict exactly how things are going to play out for Chrysler today and within the next 60 days for General Motors, but we are hopeful that these restructurings are going to result in leaner, more-competitive automobile companies with sustainable business models. What we thought would be helpful for you is to size some of the potential and immediate exposure for you, so on Slide 8 what we wanted to provide is just some more data points.

On the top right-hand side is our direct sales to GM and Chrysler, which is 5% of sales and 3% of margin. This is in context of our industrial load declining over the years, which was 40% in the '70s and it's about 25% of our load today. On the top left we showed the average after-tax accounts receivable for GM and Chrysler and the key automotive suppliers that support those two companies, which you can see the total there is \$26 million to \$42 million. This is being provided as background data because if there is a bankruptcy filing, or multiple bankruptcy filings, the prebankruptcy receivable could be at risk. However, we are currently considering if something like this does happen and depending on the magnitude, we might pursue regulatory recovery of that prebankruptcy receivable.

The General Motors and Chrysler amount that we have on this page is an average accounts receivable outstanding over a 60-day period, so it's actually slightly higher than what might be outstanding at any point in time. The key supplier amount is a probability-weighted after-tax exposure, so that's not the average outstanding. We looked at the key suppliers that we believe might be under distress that support those two companies and we did a probability analysis for those numbers. So the total there is \$26 million to \$42 million.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

On the bottom of page 8 we framed the potential asset-related exposure for our power and industrial business, where we have energy assets at several GM facilities and eight Chrysler facilities. For General Motors, the after-tax asset book value is \$46 million; however, after taking into account nonrecourse financing the potential net exposure is just \$11 million. In Chrysler's case, our equity investment is on the books for \$40 million and that creates a potential after-tax exposure of \$24 million, which is backed by DaimlerChrysler North American Guarantee, so we believe we have no net asset write-down exposure there. In both cases here for power and industrial, if they file and the plants where we have assets close we had might have impairments that play out in one quarter and then nonrecourse debt or guarantees play out in subsequent quarters, so here could be some lumpiness in how this is all recognized, but when you look at the net exposure it's not significant to the company.

With that background let me turn it over to Peter, who will take you through the first-quarter results.

Peter Oleksiak - DTE Energy Company - Corporate Contoller

Thanks, Dave, and good morning to everyone. I'd like to start with Slide 10, the first-quarter earnings results. For the quarter DTE's operating earnings per share was \$1.10. I'd like to remind everyone that a reconciliation to GAAP reported earnings is contained in the appendix. Detroit Edison contributed \$0.48 and MichCon, which typically has a strong first quarter, came in at \$0.37. The non-utility segments combined to earn \$0.34. The primary drivers to the non-utility quarter recorded results were energy trading at \$0.24, gas midstream at \$0.09, power and industrial projects at \$0.02, and unconventional production at a \$0.01 loss. Finally, corporate and other were a loss of \$0.09 in the quarter.

Let's move on to Slide 11 and a summary of the quarter-over-quarter performance by segment. Overall operating earnings are up \$51 million for the quarter. The earnings level in the first quarter of this year is in line with our internal financial plan and external guidance. Both Detroit Edison and MichCon results are up from the prior year. I'll be providing additional detail on the two utilities in just a moment. Our non-utility segments up \$6 million. Gas midstream is up \$6 million due to favorable storage contracts and higher pipeline performance. Power and industrials are down \$6 million due to primarily to higher depreciation expense in 2009 and assets that were held for sale during the first quarter of 2008, and also, lower coke sales as a result of the slowdown in the steel sector, partially offset by new business at our coal service business. Energy trading had a strong quarter as a result of higher unrealized margins and our gas-related strategies. Lower gas prices drove a decrease in earnings on our unconventional gas production segment. And finally, our Corporate and other segment was favorable \$6 million due primarily to favorable taxes.

Now I'd like to go through some quarterly details at the utility companies, beginning with Detroit Edison on Slide 12. Operating earning for Detroit Edison was \$78 million, up \$37 million from the prior year. Total margin was up for the quarter, with an implementation of the December 2008 rate order and the expiration of the temporary show cause rate reduction in April of 2008, plus lower electric choice sales. These positive margin changes more than offset the reduction in sales due to the economy. Additionally, O&M expense was lower as a result of a series of continuous improvement initiatives and other cost reduction actions. The 12-month rolling operating ROE for Detroit Edison is 10.1%.

On page 13 details our year-over-year temperature normal electric sales for the quarter and also provides a quarterly comparison of sales volumes used in our 2009 plan to prior-year actuals. You can see that the 9% reduction in sales compared to the first quarter of 2008, as outlined in the left side of the slide, was in line with our 2009 plan, which is on the right side of the slide. We saw a significant drop off in sales in the second half of 2008, so the profile of reductions in 2009 is front-end loaded. The main takeaway from the slide is that while we continue to see softening of territory sales in the struggling local economy, the sales drops we experienced in the first quarter are in line with our expectations and guidance. Of course we will continue to monitor closely the outcome of the Chrysler and GM situation and the impact on our service territory.

Moving on to page 14 and the review of MichCon's performance. As I mentioned earlier, the first quarter is typically the strongest in the seasonal gas utility business. Operating earnings for MichCon was \$61 million, up \$2 million from the prior year, primarily due to lower O&M expense. Similar to Detroit Edison, O&M expense was reduced as a result of continuous improvement-related

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

cost reductions. The 12-month rolling operating ROE for MichCon is 10.6%. That concludes an update on the earnings for the quarter and for your reference we have included in the appendix our previously-announced earnings guidance for 2009.

With that I'd like to turn the discussion over to Nick Khouri, who will cover cash flow and capital expenditures.

Nick Khouri - DTE Energy Company - VP & Treasurer

Thanks, Peter. As always, improved cash flow and balance sheet strength remains a key priority for management and the board of directors. And while the economy and financial markets remain unpredictable, DTE has taken steps to weather the current storm. Underlying cash has been strong so far this year, and as Dave mentioned, we have secured liquidity to manage under a variety of scenarios. Page 16 details capital and cash flow for the first quarter of 2009. Free cash flow in the first three months of 2009 was approximately \$500 million, comprised of \$800 million of internal cash against \$300 million of capital. 2009 net cash was down from last year due to almost \$300 million of synfuel cash in 2008 that was partially reversed later in the year. Even after dividends, DTE had excess cash in the first quarter of approximately \$400 million. But as in past years, the first quarter is always a big cash quarter, especially for our gas utility.

Capital expenditure detail is shown on page 17. DTE capital spending totaled \$333 million in the first three months of 2009, about equal to last year. Most of the year-over-year change can be explained by higher capital at Detroit Edison, offset by lower capital of MichCon and the non-utility businesses. Detroit Edison's capital increase was for planned maintenance outages at both out coal and nuclear fleet. For the full year DTE's expected capital spending haven't changed from prior estimates and will be approximately 20% below 2008.

Page 18 shows liquidity at the end of the first quarter. We had total bank credit facilities of \$1.9 billion supporting our commercial paper program, and as Dave mentioned, yesterday we closed on \$1 billion committed credit facility with a group of 19 banks, the first large, multi-year renewal in our industry. Late last year we drew down \$400 million of credit lines to assure us some flexibility in case the CP markets did not reopen. By the end of the first quarter we had paid back the total drawn amount. For us the CP market has returned to pre-crisis pricing and liquidity. In fact, CP rates are now generally below levels of last fall. Against this capacity of nearly \$2 billion, at the end of the quarter we had \$185 million of CP outstanding and \$302 million of letters of credit, leaving unused capacity of almost \$1.5 billion. Finally, we ended the first quarter within our leveraged target of 50% to 52% and the ratio of cash flow to debt between 20% and 22%. We believe we have a plan and sufficient contingency to manage through the current uncertainties.

Now let me turn it back over to Dave to wrap up.

Dave Meador - DTE Energy Company - EVP & CFO

Thanks, Nick. Let me turn to Slide 20. To summarize, we're very focused on executing our 2009 plan, and with one quarter behind us we are on track. We have a very constructive regulatory environment and we're proactively managing our economic risks. We believe our plan is realistic and encompass -- and as I said, encompasses most of what is playing out as you read in the papers today about Chrysler and GM and generally the Michigan economy. In the meantime we're very focused on our ongoing cost reductions, our regulatory filings, disciplined capital investments and customer satisfaction. We want to ensure that we position DTE Energy to emerge from 2009 with strong future growth vehicles in place, recognizing that distress always presents opportunities. And as I said earlier, our dividend is -- at \$2.12 is attractive -- attractive and well supported.

Next week Gerry Anderson and Jerry Norcia, who runs our midstream and MichCon Gas LDC, Nick Khouri and the IR team will be at AGA. Gerry Anderson and Jerry Norcia will be presenting at 9:50 Pacific time -- that's 12:50 Eastern daylight time -- and for those of you that aren't at AGA that will be webcast if you want to dial into that.

And that concludes our presentation. Laura, we'd be happy take questions now.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instruction). And we'll take our first question from Greg Gordon with Citi Investment Research.

Greg Gordon - *Citi Investment Research - Analyst*

Thanks, good morning.

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

Good morning, Greg.

Greg Gordon - *Citi Investment Research - Analyst*

You guys are amazing. Great quarter. I'm almost speechless and that never happens to me. Anyway --

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

Thank you.

Greg Gordon - *Citi Investment Research - Analyst*

-- when it comes to the O&M cuts, though --

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

Let's take the next question. (LAUGHTER)

Greg Gordon - *Citi Investment Research - Analyst*

When it comes to the O&M cuts, can you just -- I know a lot of this is laid out in the slides, but can you just go through for us what the total O&M reduction was quarter over quarter and which businesses the cuts came from, and in particular, focusing on the regulated operations and how that might play into your discussions with the regulators in the current rate cases?

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

Well, I can start to set the context, and then Dan Brudzynski's here and he can give the regulatory commentary and Peter can break this out. But we have been working, as you know, on cost reductions for a long time and I would just say that this automotive influence here is a double-edged sword. On one hand we're dealing with what we're dealing with in the economy. On the other hand, we have learned a lot from the automotive industry about how they go about doing continuous improvement. And as you know, in 2005 we took out a significant amount of cost. And last fall, when we started to see the margins start to shift for us, we sat back and we said, you know, we benchmark and we know that we have opportunities in all of our operations to move

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

our operations closer to where they need to be and we want to engage our employees around this cost reduction in the middle of this crisis, and basically position the Company to get better.

So it was interesting. Last fall people said is there really more and can you get it, and we said, yes, we feel that our cost reduction muscle is stronger than it's ever been and we're not doing this through blind cost cutting. So as we go -- went into this there were some clear directions to say you can't do this by cutting line clearance or pole-top maintenance, you can't defer plant outages, we have to go about this by getting into our processes and driving out waste and doing this across the Company, so everywhere from my accounting department to my investor relations department to our service centers to the power plants to the executive suite. We are doing this from top to bottom and from one side of the Company to the other. So we -- you can see in the results that we front-end loaded this and we're driving this and then people keep asking, is there more. And I think we are not done when this all plays out because we continued to aspire to excellence and our employees are getting very, very good at helping us identify and take out this waste. But Peter, do you want to provide some commentary on the --?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

Yes, I think the -- when you look at the breakout we really went after A&G in these reductions, so half of it is coming from A&G-related costs. The other half are coming from operating groups, and as Dave mentioned, those are really -- are just doing things smarter and more timely; taking out costs while remaining quality.

Greg Gordon - Citi Investment Research - Analyst

Okay. But the O&M cut, particularly at DTE, was what, on a pretax basis on the order of --?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

When you look at the utility related around \$50 million.

Greg Gordon - Citi Investment Research - Analyst

\$50 million and the majority is at DTE and then a bit of it is at MichCon, right?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

Yes, the majority is at Detroit Edison, which is a combination of the A&G as allocated down, as well as the core operating groups.

Greg Gordon - Citi Investment Research - Analyst

Right, because it looks like you've hit your O&M cut target that you laid out for us at the end of last year all here in the first quarter, so does that mean we'll see some normal cost creep throughout the rest of the year off of the lower base?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

You'll see some additional, maybe two-thirds of it in the first quarter. As Dave mentioned, our O&M reductions are really following our load loss, so when we saw load reductions happening last year -- actually internally starting the second quarter, we started taking reductions and actually we took another round of reductions first quarter of this year. So on a pure year over year you're really going to see about two-thirds of it happening in the first quarter.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Greg Gordon - *Citi Investment Research - Analyst*

Okay. And when -- are these levels of cost reductions presumed in your current rate filings?

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

Dan, why don't you comment on it?

Dan Brudzynski - *DTE Energy Company - VP - Regulatory Affairs*

Sure. Yes, what you're seeing play out in the first quarter is already assumed in our rate case filing. Our test year runs from mid '09 to mid '10 and there are approximately \$93 million of assumed cost reductions as part of the filing.

Greg Gordon - *Citi Investment Research - Analyst*

Okay. So the regulators are not going to look at this and see this as being indicative of a cost level lower than what you had already presumed when you filed for your rate increase?

Dan Brudzynski - *DTE Energy Company - VP - Regulatory Affairs*

No.

Greg Gordon - *Citi Investment Research - Analyst*

Okay. Thank you.

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

Thank you.

Operator

And we'll take our next question from Dan Eggers with Credit Suisse.

Dan Eggers - *Credit Suisse - Analyst*

Hey, good morning.

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

Good morning.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Dan Eggers - *Credit Suisse - Analyst*

On the -- separate from the O&M savings. in the quarter (inaudible) [rating] was also quite a bit ahead of plan and you guys have set up your full year in the first quarter. Any thoughts on revisions there, or were you guys just monetizing (inaudible) the [in-the-money contracts] in the quarter?

Peter Oleksiak - *DTE Energy Company - Corporate Contoller*

No, we're still comfortable with the 40 -- the \$45 million. Really, at this point in time the majority of that is unrealized margin gains so we'll continue to monitor the performance of that business. They are off to a good, strong economic start, but at this point we are comfortable with the guidance.

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

So if you look at the breakdown of the earnings for the quarter I would say that close to \$20 million was realized, and \$35 million was unrealized and then that's offset with O&M for the business. So they had a significant unrealized gain on the quarter and it's early in the year for everything. It's certainly early in the year for trading.

Dan Eggers - *Credit Suisse - Analyst*

So this was (inaudible) due the fact that this was just where you have positioned and the fact that commodity prices fell that you had unrealized gains?

Peter Oleksiak - *DTE Energy Company - Corporate Contoller*

Yes.

Dan Eggers - *Credit Suisse - Analyst*

So probably over the rest of the year there's going to be more execution on realizing those gains at a de minimis profit. Is that the right way to think of it?

Peter Oleksiak - *DTE Energy Company - Corporate Contoller*

Yes.

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

And I think that's fair.

Dan Eggers - *Credit Suisse - Analyst*

Okay. Residential usage was also down quite a bit in the quarter in addition to industrial. You -- can you just give some color around what you're seeing customer behavior wise at that customer class. Are people conserving more, are you seeing population migration, r was this just more of a weather event?

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Peter Oleksiak - DTE Energy Company - Corporate Contoller

The -- for the residential we are closely monitoring the usage. The high usage for them actually is in the summer months with the air conditioning load, so we're definitely going to be taking a look at -- is there a profile change around usage. So we did anticipate actually some usage declines. We based that into the plan. And as you indicated, right now they are coming in lower than expected. So that's probably is a potential risk, but there is upside and more favorability we're seeing on the commercial sector. So if you mix it together, we are comfortable with the load projections we have.

Dan Eggers - Credit Suisse - Analyst

But are you seeing residential usage actually down or is there a change in customer dynamics or empty houses or anything?

Dave Meador - DTE Energy Company - EVP & CFO

Not really. I think a lot of that -- unfortunately, we had been in a recession earlier than the rest of the country, so I think we had already started playing out with this customer migration out of the state, and that's -- I think that's leveled off for now. That doesn't mean it can't increase. What we aren't getting are any new attachments, obviously. And then the other -- the place where it's playing out at would be in the whole area of bad debt expense, but we're doing a good job there, too. The team's done a great job out in the field. Those that can't afford to pay their bills, getting them the appropriate assistance programs and those that can afford who aren't paying being pretty assertive in terms of credit and collections, and so you see our bad debt expense on track for the year also. And we still feel comfortable with our projections on arrearages and bad debt for the year.

Dan Eggers - Credit Suisse - Analyst

I guess just one last question. Dave, can you remind us at PNI what the breakdown of customer exposure is between auto and steel and some of the other pieces where you have equipment on site?

Dave Meador - DTE Energy Company - EVP & CFO

Just roughly -- rough figures I'd say it's about two-thirds steel, one-third auto is kind of a rough rule of thumb there. And we also have our coal services business running through that business also. So this year the coke-related steel sales came up, but coal services is offsetting some of that. And then the auto-related is still performing well. So we'll have to wait and see how this goes, and if there is an extended shutdown or a plant closure, then we'll have some impact there.

Dan Eggers - Credit Suisse - Analyst

Thank you.

Operator

We will take our next question from Paul Rizdon with KeyBanc.

Paul Rizdon - KeyBanc - Analyst

Just looking for a little more clarification on the O&M. Was the \$100 million off of '08 or was that off of budget?

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Peter Oleksiak - DTE Energy Company - Corporate Contoller

It was off of '08. And actually there is going to be some offsets around pension and [OPEP], so when you look at it all in it's probably net around \$60 million to \$70 million absolute down year over year.

Paul Ridzon - KeyBanc - Analyst

And you've taken \$106 million out of first quarter and you're two-thirds done so does that mean we're going to end up at \$150 million?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

The \$106 million -- you may be talking to the overall DTE income statement, that includes nine utility businesses, which a lot of that is -- kind of relates to the volumes in cost of goods sold, the utility business is around \$50 million, as we just discussed earlier. So two-thirds of it is realized this quarter from a year-over-year profile.

Paul Ridzon - KeyBanc - Analyst

Was the \$100 million a utility reduction or a consolidated reduction?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

The \$100 million is the total utility reduction that we're going after. Now there -- once again, there is an off -- there's going to be a partial offset with increased pension and OPEP expense and that's really related to the plan performance and returns.

Paul Ridzon - KeyBanc - Analyst

So MichCon and Detroit Edison should be down about \$60 million year over year?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

Approximately.

Paul Ridzon - KeyBanc - Analyst

Okay. Thank you for the clarification.

Dave Meador - DTE Energy Company - EVP & CFO

Okay, thanks, Paul.

Operator

And we'll take our next question from [Brett McCleney] with Fidelity.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Brett McCleney - Fidelity - Analyst

Hey, good morning, guys.

Dave Meador - DTE Energy Company - EVP & CFO

Good morning, Brett.

Brett McCleney - Fidelity - Analyst

Great job on getting that credit facility extended -- or renewed, rather. I think a lot of people were looking on it -- looking at you guys and were really interested to see how that will play out. Certainly one of the first ones to get renewed in the industry. I was wondering, though, you guys had only mentioned it was multi-year facility so I was hoping to get more details on the terms of the facility; when does it mature, the cost, credit -- covenants, et cetera.

Dave Meador - DTE Energy Company - EVP & CFO

The migration was toward shorter terms, so if you went back several months ago we were -- the feedback was you're not going to renew this and you'll be lucky if you get anything other than a 364-day facility.

Brett McCleney - Fidelity - Analyst

Right

Dave Meador - DTE Energy Company - EVP & CFO

You come out of this afterwards and we proactively manage this and Nick and the treasury team did a great job. We ended up with a two-year facility and we upsized it, so that -- and we thought that was very positive. The costs are more than would you like to have to pay, including some up-front fees, so the costs end up higher than we'd like them to be, but it's all within our -- anticipated within our guidance. So even though the costs are higher than the expiring facility, we anticipated the mixture of what's happening here, and it's -- so there's no change to our guidance.

Brett McCleney - Fidelity - Analyst

Okay. And the covenant side, was there any new covenants they requested?

Dave Meador - DTE Energy Company - EVP & CFO

Nick, do you want to speak to that?

Nick Khouri - DTE Energy Company - VP & Treasurer

No. No, there's nothing unusual on the covenant side.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Brett McCleney - Fidelity - Analyst

Okay. The last thing I wanted to ask about on this. You said that you guys -- I think you guys had mentioned there's 19 new banks in the new facility.

Nick Khouri - DTE Energy Company - VP & Treasurer

Yes.

Brett McCleney - Fidelity - Analyst

How many banks were in the facilities that were maturing later this year?

Nick Khouri - DTE Energy Company - VP & Treasurer

A few more, 24. So we had -- we gained a couple, we lost a couple, and net-net we're down a few, but still a pretty strong bank group at nearly 20.

Brett McCleney - Fidelity - Analyst

Okay. And these were mostly regional players or were they the big banks? How would you define them?

Nick Khouri - DTE Energy Company - VP & Treasurer

Well, I would define --

Dave Meador - DTE Energy Company - EVP & CFO

It's really both.

Nick Khouri - DTE Energy Company - VP & Treasurer

Yes.

Dave Meador - DTE Energy Company - EVP & CFO

It's really both.

Nick Khouri - DTE Energy Company - VP & Treasurer

I know, we could go bank by bank, but let's just say generally it's -- some of the players -- the smaller players are the ones that are no longer part of the bank group and all the bigger banks are still in the bank group. And including we've increased the number of leads from three to six, too.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Brett McCleney - Fidelity - Analyst

Okay, great. Well, thanks for the color there. And I just -- one more quick follow up is on the cost side. You guys had mentioned it's baked into your guidance, et cetera, and that's good, but I'm just wondering, we hear about pricing them more on the market what the market costs would be so I was curious, could you get a little bit more color of what the actual pricing was?

Nick Khouri - DTE Energy Company - VP & Treasurer

Well, not at this time. We're still just closing the deal, we'll release that later. But the pricing certainly was much higher than few years ago, and then higher than the -- than before the crisis. But I don't know at this point we're giving out the specifics until the deal's actually done, but over the next week or two we'll talk about both the total cost in both up front and ongoing.

Brett McCleney - Fidelity - Analyst

Great. I expect it probably to be the back of the 10K -- or Q, rather, or is that going to be coming out?

Nick Khouri - DTE Energy Company - VP & Treasurer

No, I don't think -- in the Q we'll talk about it but we won't put the pricing in it.

Brett McCleney - Fidelity - Analyst

Okay. All right, great. Thanks a lot, guys, and good job.

Nick Khouri - DTE Energy Company - VP & Treasurer

Thank you.

Operator

We'll now move to Paul Patterson with Glenrock Associates.

Paul Patterson - Glenrock Associates - Analyst

Good morning, guys.

Dave Meador - DTE Energy Company - EVP & CFO

Good morning, Paul.

Paul Patterson - Glenrock Associates - Analyst

I just wanted to again revisit the O&M. I'm a little slow, I'm afraid. When I look at the quarter-over-quarter number it looks like it's over \$100 million decrease and I guess if you multiply the three quarters -- sorry the three months by four you come up with a substantially lower number than 2008. So I guess just looking at Company wide and the job you've done with O&M if you can

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

just, again, help me out with respect with how much we should expect that to go down and how pension offsets that and when that will show up?

Peter Oleksiak - DTE Energy Company - Corporate Contoller

The \$100 million you're referring to is total DTE, so about half of that is related to the non-utility businesses, really which is related to cost of goods sold type of expense so you really need to exclude that --

Paul Patterson - Glenrock Associates - Analyst

Okay.

Peter Oleksiak - DTE Energy Company - Corporate Contoller

-- that out. So we're really talking about \$50 million reduction --

Dave Meador - DTE Energy Company - EVP & CFO

At the two utilities.

Peter Oleksiak - DTE Energy Company - Corporate Contoller

-- at the two utilities. And so when you -- when we mentioned the \$100 million goal that was an absolute before increases around the pension and OPEP. So when you net that in we really are looking at about a \$60 million to \$70 million year-over-year absolute reduction, with the majority it happening year over year at the first quarter. And once again, we started our cost reduction efforts really in the second quarter of last year, so those reductions plus some additional ones we've taken this year are all playing out this quarter. Last quarter, really, we were going flat and actually there was -- even a bit of a hangover from the SAP implementation occurring in that quarter. So we -- actually this profile was anticipated with the majority of the O&M happening -- reductions happening quarter over quarter in the first quarter.

Dave Meador - DTE Energy Company - EVP & CFO

So, Peter, just to reconfirm that, if you took your O&M and the two utilities for 2008 and asked a question, what does it look like for 2009, it's \$60 million to \$70 million projected year over year. That's what would be imbedded in our guidance and we're executing on that.

Paul Patterson - Glenrock Associates - Analyst

Okay. Now what are the -- you're mentioning all this continuous improvement and you guys have taken an opportunity here with the recession, it sounds like, and other things to keep on looking for cost savings, and sometimes utilities can find more and what have you. And I'm just wondering, there's been a slowdown in Michigan and what have you. How about the addi -- opportunity for more stuff, or how should we think about that going forward? Might there be something that we could see coming up? How should we think about that in the next few years?

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

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

Part of it, I think -- part of the answer would be dependent on what happens with inflation and I think if we stay in this deflationary environment, it feels one way depending on how the government manages itself, and if we end up in inflation or hyperinflation and I -- then working just to offset inflation it feels differently. But let's set that aside and say it doesn't happen or that it's out there for a while. We are going to continue to look at everything that we do to drive out waste and reduce our cost because we owe that to our customers to be a low-cost provider. We have many areas of the Company we benchmark. We started this several years ago. We're at fourth quartile that now are median or even at first quartile in their benchmarks, but we still have some that aren't that we're off working on those.

So we've taken a unique approach, we believe. At a time when companies around the country are laying off their employees as a way to hit their bottom lines we went to our employees and said we're not going to do that but we need your help. We need your help in trying to help us root out all of this waste and opportunity and the best of our ability if you do that we're not going to lay people off, we're going to not keep you employed. And we've really rallied our employees around this, so we've got, as I said, thousands of people engaged in helping us to identify opportunities for improvement and that's just going to be a way of life for us. So if there's no inflation I would say there's still more cost reduction, but at some point in time we will also have not only inflation but with environmental expenditures, there will be scope-related O&M items that get added back in. But relative to this continuous improvement culture I would -- we're not stopping. There's never a there, so we're going to continue to work on cost reductions.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, great. Thanks a lot, guys.

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

Okay.

Operator

We will now go to a follow up from Greg Gordon.

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

Still speechless, Greg?

Greg Gordon - *Citi Investment Research - Analyst*

No, actually all of these guys have been asking the follow-up O&M questions, so my question has been answered. Thank you.

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

Okay. Thank you.

Operator

We will now move to Yiktat Fung from Zimmer, Lucas Partners.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Yiktat Fung - Zimmer Lucas Partners - Analyst

Good morning and congratulations on a great first quarter.

Dave Meador - DTE Energy Company - EVP & CFO

Thank you.

Yiktat Fung - Zimmer Lucas Partners - Analyst

I'm actually going to beat the dead horse and ask about O&M again. I'm just wondering, it sounds to me that most of these cost reductions are of a permanent nature, is there some part of this O&M that's really a deferral costs for future quarters or years?

Dave Meador - DTE Energy Company - EVP & CFO

When we set our objectives, we -- because we did this very rapidly, last October we called people in and said you've got a week to get your plans in place and then start executing and our target then was that 80% of this needed to be sustainable. We would allow people 20% in one-time actions, and those one-time actions could be everything from eliminating travel to stopping leadership and employee training. So those things will come back. What we're doing now is that we've got, I believe, most of the sustainable in place and the non-sustainable what we're trying to do is to continue to look for cost reductions, which gets to a prior question to basically backfill these non-sustainable items. So our first to-do is to continue to look for cost reductions to backfill non-sustainable items. So I wouldn't describe it as deferrals as much as just one-time items [that you can't continue not do that.] I have to do training if we're going to be a sustainable, vibrant business. It's just we cut back really hard this year.

Yiktat Fung - Zimmer Lucas Partners - Analyst

I see. So is it fair to say that of that \$100 million O&M that you have targeted for utilities this year, around 80% of that is sustainable and 20% is non -- is kind of a one-time nature? You're working to increase the 80%.

Dave Meador - DTE Energy Company - EVP & CFO

Right. Right. That is how I'd describe it.

Yiktat Fung - Zimmer Lucas Partners - Analyst

All right. And are there any, I guess, costs to achieve related to these O&M cuts?

Dave Meador - DTE Energy Company - EVP & CFO

No.

Yiktat Fung - Zimmer Lucas Partners - Analyst

No? Okay.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Dave Meador - DTE Energy Company - EVP & CFO

Much different than prior reductions here. And the way we are going about this, again, is I think fundamentally different that there are no costs to achieve and if there are costs those cost have to be offset as part of cost reduction.

Yiktat Fung - Zimmer Lucas Partners - Analyst

Thank you and congratulations once again.

Dave Meador - DTE Energy Company - EVP & CFO

Thanks.

Operator

And we will now go to [Danielle Sietz] with Dudack Research Group.

Danielle Sietz - Dudack Research Group - Analyst

Thank you. (inaudible). At this time I just would like to -- you mentioned that you had some opportunity for growth in the renewable areas and that actually to start this year. Could you elaborate on that? And also, could you give just a hint as to what your capital spending will look like over the next few years. Will it stay around \$1.1 billion?

Dave Meador - DTE Energy Company - EVP & CFO

As we've talked about, under laws that was passed last year we have an energy optimization program. The surcharge for the energy optimization program will start, we believe, in June of this year and we will start spending money there. The renewable energy program, the timing's slightly different. The surcharge starts in the fall and it's going to be predominantly wind. There will be some biomass and solar and those expenditures will ramp up starting in 2010. Our thinking right now as we lay out our program -- we're waiting for MPSC approval, which we expect to get in June, is that this fall we will be able to lay out for you in much more detail what our RPS program looks like for 2010, '11, '12 as we step into that billion dollars of predominantly wind that we're going to be doing in Michigan.

And then on a non-utility side, our renewable energy business -- in the power and industrial group we have 24 landfill gas biomass sites. We are looking for growth opportunities there. And then we also have several small coal-burning plants. These are 100 megawatts or less plants that are being converted to wood burning. So we have one in Wisconsin. We're in the process of bidding on one in California right now. And we -- and these qualify for renewable energy credits and we see that as a possible area of growth for the power and industrial businesses. We look around the country at these very small coal plants that can be converted.

Danielle Sietz - Dudack Research Group - Analyst

And do you visualize this as a -- these convertible ITC situations where actually a lot of the earnings are up front?

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Dave Meador - DTE Energy Company - EVP & CFO

So -- at Detroit Edison with the renewable energy program, if you have either a production tax credit or treasury grant we believe that basically is an offset to the capital and will flow through to our customers in terms of reduced cost for wind power. On the acceleration of depreciation, we -- that'll show up for us in terms of cash flow, not necessarily earnings.

Danielle Sietz - Dudack Research Group - Analyst

Okay.

Dave Meador - DTE Energy Company - EVP & CFO

So that'll help enhance cash flows at Detroit Edison.

Danielle Sietz - Dudack Research Group - Analyst

And so does that mean that the \$1.1 billion of CapEx might be starting to rise?

Dave Meador - DTE Energy Company - EVP & CFO

No.

Danielle Sietz - Dudack Research Group - Analyst

No? Do you think that you can maintain around this level for a couple of years?

Dave Meador - DTE Energy Company - EVP & CFO

Yes. Nick, I don't know if you want to speak to it, but the production tax credits or the treasury grants can actually reduce that cost, and then right now there's deflation in that whole market. As that markets collapsed it's a real opportunity to buy equipment or take positions. And then, if during the program as we're executing it, we ended up in an inflationary period there's cost off-ramps that have been built in legislation.

Danielle Sietz - Dudack Research Group - Analyst

Great, thanks.

Dave Meador - DTE Energy Company - EVP & CFO

Okay. Thanks, Danielle.

Operator

And there are no further questions at this time, sir. I'll turn back to you for any closing remarks.

Apr. 30. 2009 / 8:30AM, DTE - Q1 2009 DTE Energy Company Earnings Conference Call

Dave Meador - DTE Energy Company - EVP & CFO

I just want to thank everybody again. As I said, we are very pleased. We are executing our plan and the plan is working. And just to a reminder again that the team will be at AGA and that Gerry Anderson and Jerry Norcia and the team will be doing one on ones, but also they will be presenting at 9:50 Pacific time and 12:50 Eastern daylight time on webcast if you want to dial into that. And thanks again for joining us.

Operator

This does conclude today's conference call. Thank you all for your participation.

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