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DTE - Q1 2017 DTE Energy Co Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the DTE Energy 2017 Q1 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead.

Barbara Tuckfield

Thank you, Kim, and good morning, everyone. Before we get started, I would like to remind everyone to read the safe harbor statement on Page 2 of the presentation, including the reference to forward-looking statements. Our presentation also includes reference to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP net income to operating earnings provided in the appendix of today's presentation.

With us today are Gerry Anderson, Chairman and CEO; Jerry Norcia, President and COO; Peter Oleksiak, Senior Vice President and CFO; and we also have members of the management team to call on during the Q&A session.

And now I'll turn it over to Gerry.



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Gerard M. Anderson - DTE Energy Company - Chairman and CEO

Well, thank you, Barb, and good morning, everybody. Thanks for joining us on the call. So I'm going to start this morning by giving you a recap of our performance in the first quarter, including some updates on a couple of key developments at the company. And then I will hand it over to Jerry Norcia, who will provide a more in-depth look at some of our growth opportunities. And then Peter will run through the financials, wrap things up, and then we'll move into Q&A.

So moving on to Slide 5. If you had told me back in January that we would face the largest, most damaging wind storm in our company's history in the first quarter, and that we would also face the third warmest winter in our company's history, with both January and February 2 standard deviations warmer than normal in Michigan, I would have considered the odds of us being right on track with our earnings to be very low. But that, in fact, is where we are. We are right on track to deliver on our earnings per share guidance. One quarter into the year, we are off to a very good and strong financial start.

Now you may ask, how does that happen? I know I found myself asking that. I'll give you 2 explanations, and both of them are accurate. So the first explanation is that while our utilities were impacted by the storm and the warm weather, other parts of our business portfolio, Gas Storage and Pipelines and Power and Industrial, for example, both of which were up significantly quarter-over-quarter and our corporate center, those portions of the company picked up the slack. And when Peter reviews the numbers, you'll see that, that, in fact, is the case.

Second explanation is this, our leaders and people at DTE have become very good at dealing with the unexpected and this pattern goes all the way back to how we handled the economic crisis. But the pattern has strengthened over time. And here's a big part of the explanation for that pattern of dealing well with the unexpected. I received our most recent Gallup survey results on Monday. Gallup measures the engagement of our workforce, which is really about where their energy and their focus and their heads are. And Gallup ranked us in the 97th percentile of their database, the top 3% in the world, the highest we've ever been at DTE. So when your leaders and your people come to work with that sort of energy and focus, they tend to surprise you to the upside and that's what happened in the first quarter here at DTE. I will talk more about the large storm we experienced in a minute. That was a big event for us and our customers.

But in other news, we filed an electric rate case last week. So as I've mentioned in the past, we are working our way through a long-term transformation of our utilities to address aging infrastructure, and we will be investing heavily over the next decade to transform our generation fleet and also, to modernize our distribution system through automation, redesign and upgrades targeted at improving reliability. As we do with most things, we're taking a very systematic approach to this slate of investments. We are developing a detailed road map that ties our near-term actions and investments to long-term results, and we're leveraging both our continuous improvement model and the use of new technologies to drive productivity. And our goals are to make the necessary generation and infrastructure investments in the process, significantly improving our customers' experience, while simultaneously driving substantial increases in productivity that will be required to maintain customer affordability.

Moving on to our Gas Storage and Pipelines business or GSP. This business line is off to a very strong start in 2017 and is showing really good year-over-year growth. Not surprisingly, the question we most often get asked about GSP centers on the in-service date for the NEXUS Pipeline. So let me just start with a punchline. The in-service date for NEXUS does not impact our 2017 earnings guidance. It won't affect our 2018 earnings guidance, and it has no impact on our long-term 5% to 7% earnings per share growth rate guidance. In the short run, earnings tied to AFUDC are traded against earnings tied to operations, and that tradeoff is not consequential. And in the long run, moving the start date of a pipe a few months is not consequential to long-term earnings either.

Now that said, we will begin construction of this pipe, just as soon as FERC reestablishes a quorum and approves its certificate. And what is consequential is that until the project's approved, a \$2 billion shovel-ready infrastructure investment project with all of its attendant benefits for the local communities of Ohio and Michigan and Ontario, a project that's a provider of thousands of jobs, remains on hold.

And as most of you know, the Trump administration has yet to formally nominate new FERC commissioners in order to reestablish the quorum needed to get the project moving. We understand that 3 potential candidates have been undergoing a vetting process for the past month or longer. That continues to be confirmed. We anticipate an announcement could come at any time, relative to those candidates, although we have not been advised of a specific date. We continue to understand that the White House and Senate leaders are in regular discussions about this, and



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we expect those discussions to pick up now that the Senate's back in session again after their recess. And we are still targeting NEXUS to be in service at the end of this year. That being said, were the in-service date moved to 2018, as I said earlier, we're only talking about a few months.

So moving on to the Link Pipeline and gathering assets that we acquired late last year. I continue to feel really good about this asset and its addition to our portfolio. We recently renegotiated contract with a key shipper on Link, which was a positive development for us, and we're continuing to have similar really productive conversations about growth opportunities with other shippers. And Jerry Norcia will talk more about those developments in his comments in a few minutes.

In the Power and Industrial business, I talked about some interesting things happening on the landfill gas front a few months ago on the year-end call, and now I can tell you that we are moving to purchase 2 landfill gas projects. We just closed on one of those deals this past Monday, and the second transaction is in motion and moving through detailed final steps as well.

Now as you know, we will be replacing the REF earnings that begin to step down in 2020 with other P&I projects. So these new projects that I just mentioned, combined with the larger-scale on-site energy and combined heat and power project that I also discussed on the year-end call, those projects together will deliver a significant fraction of the earnings needed to achieve the 2020 earnings targets for Power and Industrial. And again, Jerry Norcia will go over these projects in a bit more detail in a few minutes.

So now I want to move on to Slide 6, and give you a little color on the recent windstorm and how we handled that. As I mentioned, this was the largest weather event in our company's history, with hurricane like winds gusting to nearly 70 miles an hour for 12 hours. This is a very unusual pattern for Michigan. We usually get a wallow wind that goes through and comes and goes in a relatively short period of time. But because of this sustained wind pattern, we unfortunately had 800,000 of our customers left without power. And that's nearly 40% of our electric customer base, which tells you just how significant the windstorm was. Along with a full contention of our crews, DTE brought in crews from 7 states surrounding us to assist in restoring power.

And before I discuss that effort to restore power, I just want to mention how much we appreciate the patience and cooperation of our customers during the restoration period. We know how difficult it is for our customers when they lose power, so we put all of our energy into restoring that power as quickly as we could. And I have to say the storm was a great example, not only of our employees, but of our customers and the community working together for a common goal. And along those lines, I'd like to join our Governor, Rick Snyder; and our MPSC Chair, Sally Talberg, who in the wake of the storm praised the utility workers for their tireless effort to keep our communities powered and our residents safe, and especially for their work in that storm. I really am proud of our employees and also the out-of-state crews who helped them, in the round-the-clock work that they did in a really historic event for us.

So throughout the storm, we deployed over 3,000 linemen and support crews. I have to say that our recently installed smart meter technology proved to be invaluable in detecting and tracking outages and helping us to quickly lay out a plan of attack for restoration, big change and improvement. We were able to restore 70% of our customers, 70% of that 800,000, within 2 days. And nearly all of our customers, 96%, were restored within 4 days. So we're really proud of that. A broad group also pulled together to help those who were most vulnerable. So we worked closely with the United Way, the Red Cross and with faith-based community in our region to make a whole array of warming centers available because temperatures began to drop immediately in the wake of the outage. So we learned a lot from this event. We'll be better at it the next time we face a similar event. The storm certainly reinforces the need for us to continue to make investments in strengthening our distribution system, to prevent future outages and to improve speed of restoration in another outage of this scale, should it come.

So with that, I am going to turn things over to Jerry Norcia, who will go over some of the developments in our growth businesses. Jerry, over to you.

Gerardo Norcia - DTE Energy Company - President and COO

Thanks, Gerry, and good morning, everybody. Today, I'll be focusing on the nonutility growth businesses, GSP and P&I. I want to give you a brief update on developments with new and existing projects. We'll begin with an update, what's happening at GSP on Slide 8.

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So let's start with the Link lateral and gathering system we purchased last year. Even though we've owned this asset for less than a year, the market interest has been very positive and the near-term shipper activity is coming in sooner than we anticipated. Recently, we renegotiated an agreement, as Gerry mentioned, with a key shipper that increases their volumes by more than double and also lengthens the duration of their contract on dedicated acreage that is more prolific than originally anticipated. This particular agreement requires an incremental capital investment that was contemplated in our plan. The really great news is that we're seeing this type of favorable producer response on neighboring acreage as well, and we continue to work with other shippers to expand and firm up contract terms.

For the NEXUS Pipeline, as Gerry mentioned, we are still targeting an in-service date by year-end. We get a FERC certificate in the second quarter. We feel confident about getting NEXUS in service in 2017. If the certificate drifts deeper into the summer, this project may push into early 2018. And as you know, we purposely planned the path of the pipe through Northern Ohio, where we would have a number of interconnect agreements, that could provide an additional load of up to 1.7 Bcf per day, and have drop-off points south of Don, Ontario. So we continue to feel really good about the pipe and its dynamics.

Now moving on to the Millennium Pipeline. Last month, Millennium received a favorable environmental assessment from the FERC for its expansion. This is an important step as we move forward towards completing additional 0.2 Bcf a day of transportation capacity providing service to New York. This expansion is scheduled to be completed in the second half of 2018.

Another project we want to highlight is the new 14-mile natural gas lateral pipeline in Birdsboro, Pennsylvania. The lateral will connect the combined cycle natural gas plant for the Texas Eastern Pipeline. We expect the pipe to be in service in the second quarter of 2018. And along with the Birdsboro Pipeline, we are in advanced discussions with other counterparties for similar growth opportunities. These are all meaningful steps in continuing to grow our GSP platforms.

So now let me turn to our P&I business on Slide 9. At P&I, we've been talking about strategic opportunities recently. As Gerry mentioned, we have 2 new landfill gas projects and a project that includes construction of combined heat and power plant. First project is an acquisition with operating landfill gas plant, which we just closed on earlier this week. Second project is that, an advanced-stage development landfill gas project that includes construction of a new plant. All of the permitting and write away is complete, and we expect to be operational in the first half of 2018. Both sides have existing contracts, and we use technology and equipment similar to our other landfill gas facilities. So these are really a great fit for us, especially considering the extensive experience our P&I group has in the landfill gas recovery with 19 operating sites in 8 states. We just do acquisitions, are a sign of future opportunities and are looking at additional opportunities similar to the 2 just announced.

In addition, we have a combined heat and power plant project we are working on and feel really good about. We participated in the selection process and we were the selected party. We still have details to work through but are expecting approval in the middle of this year, and should be able to announce something later this year. These landfill gas project, when combined with the CHP project, will fill around 1/3 of the new projects needed at P&I to achieve the 2021 earnings target. We will update you as these projects progress. And now I'll turn it over to Peter, who'll provide a financial update for the quarter.

Peter B. Oleksiak - DTE Energy Company - CFO and SVP

Thanks, Jerry, and good morning to everyone on the call. I'm going to start on Slide 11. This slide shows our quarter-over-quarter operating earnings by segment. As Gerry mentioned upfront, DTE is off to a great start, just like my Detroit Tigers, who are currently in first place and have scored 32 runs in the last 2 games. Operating earnings for the first quarter were \$1.79 per share. For reference, our reported earnings were \$2.23 per share. And for a detail breakdown of EPS by segment, including a reconciliation to GAAP reported earnings, please refer to the Slide 23 of the appendix.

Now let's touch on key segmented details, starting at the top with our electric utility. DTE Electric's earnings were \$106 million for the quarter, down \$21 million compared to the first quarter of last year. The lower earnings were mainly driven by significant weather events that affected the electric utility. And as Gerry mentioned, this quarter, we experienced the largest windstorm in our company's history. And this was the third warmest first quarter on record, warmer than the first quarter of last year. O&M expenses were higher related to planned outage projects. And in addition, to some timing that we expect to reverse as we move through the year. This is partially offset by the implementation of new rates last August. And further breakdown of DTE Electric's quarter-over-quarter results can be found in the appendix on Slide 15.



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Moving down to DTE Gas. Earnings were \$107 million, up \$20 million quarter-over-quarter, primarily driven by the new rates implemented last November, which were offset by the warmer weather. Keep in mind as well that the infrastructure recovery mechanism surcharge was rolled into base rates in our recent rate case. Now this will drive some variability in the revenue timing due to moving from a consistent multi-surcharge to a volume-based recognition of these rates.

Meaning for 2017, revenue will be higher in the first and fourth quarters and lower in the second and third quarters due to this timing.

Gas Storage and Pipelines earnings were \$45 million for the quarter, up \$15 million over last year due to higher pipeline and gathering earnings, and some timing of expenses. We expect the timing favorability reverse through the balance of the year and this timing was roughly \$5 million.

Moving down the slide. Earnings at Power and Industrial Projects were \$30 million for the quarter, up \$9 million for the first quarter last year. This increase was primarily given by higher REF volumes and fuel-related earnings, which were offset by lower renewable earnings.

Our Power and Industrial segment is still on track to meet its earnings guidance for the year.

Moving down to our earnings for the Corporate and Other. They were \$16 million for the quarter, \$23 million favorable to last year due to a third quarter 2016 accounting as well as timing of taxes. The accounting change was around \$13 million for this quarter, and related to simplifying GAAP accounting for taxes on stock-based compensation. The timing of taxes this favorability will reverse through the balance of the year. Earnings for our growth segments for the first quarter were \$304 million or \$1.70 per share compared to \$258 million or \$1.43 per share last year.

To round out our operating earnings, we include the results for Energy Trading segment, and they're off to another strong start. The first quarter operating earnings were \$18 million, up \$2 million from the first quarter last year, and we have our typical reconciliation of operating to accounting in the appendix on Slide 22. Their economic contribution was \$19 million for the quarter, and on track to achieve the annual economic earnings of \$20 million to \$25 million. Remember there's seasonality in this business, and we typically wait till later in the year to assess the trading company's accounting incomes contribution before we update guidance.

Now I'll wrap it up on Slide 12, and then open up the line for questions. Once again, we had a strong first quarter. Even with the record weather event and good amount of unfavorable weather, I'm confident that we'll achieve our 2017 operating EPS guidance of \$5.15 to \$5.46 per share. Our utility investment approach remains focused on improving reliability and the customers' experience while maintaining affordability. The strength of our utilities and the growth at our nonutility businesses gives me confidence that we'll be continuing to deliver premium shareholder returns.

With that, I'd like to thank everyone for joining this morning. So Kim, you can open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Paul Ridzon from KeyBanc.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Could you give more detail about the accounting change, and how that will flow through the rest of the year? I noticed you didn't change your corporate guidance. Was that kind of change contemplated when you gave that guidance originally?



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Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

So I'll turn to Peter, and then he mentioned 2 items. One was some tax, where there's timing; and the other was an accounting change, where that change will be a permanent add to earnings. But Peter, why don't you...

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

Yes, Paul, the accounting changes, the accounting standard went into effect third quarter last year. We're really seeing the impact of it this quarter. It's a standard change related to the full recognition of the tax benefits related to stock-based compensation. In the past, this was split between income statement and the balance sheet. Now you're seeing the full amount in the income statement.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Does that answer the question for you?

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

Yes, it did.

Operator

We'll hear from Julien Dumoulin-Smith from UBS.

Julien Patrick Dumoulin-Smith - *UBS Investment Bank, Research Division - Executive Director of Equity Research for Electric Utilities, Alternate Energy, and IPPs Group and Analyst*

So a couple of questions here. First, starting with the utility slide. Obviously, with the electric case here, I wanted to follow up on any potential expansion and distribution opportunities. I know you all in the commission have been discussing for a little bit potentially enhancing some of the distribution reliability metrics. Can you talk about that a little bit? I know Sally has talked about it a little bit on the PFT side.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

I am having a little trouble hearing you, but I think you're asking about our distribution investments and enhancing our distribution metrics through those investments. So I would say if there's any area that we're strategically focused on here at the company in terms of investment right now, it's probably that. We have the opportunity, I think, to strengthen the system, automate the system and harden the system in a way that really will improve our ability to withstand events like the one we just experienced, and to generally improve our customer reliability experience. But we've learned from other companies that have gone through the cycle that there's some very significant productivity improvements that come with this. So we're spending a lot of time working our way through the agenda. We're talking about it actively, as you suggested with the Public Service Commission, so I think they understand the priority in the state of replacing infrastructure. And so I expect it to be a collaborative process. And that's paired up, as you know, with a generation investment agenda that I think is pretty well defined at this point. So with the generation agenda defined, we're really now diving into exactly the question you raised. But let me know Julian, does that answer, what you were looking for?

Julien Patrick Dumoulin-Smith - *UBS Investment Bank, Research Division - Executive Director of Equity Research for Electric Utilities, Alternate Energy, and IPPs Group and Analyst*

I've just been curious, is there any kind of follow up that is anticipated with the commission, through the course of the year, vis-à-vis your distribution of CapEx and any expansion of it? I just wanted to clarify that point, more than anything.



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Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Jerry Norcia's is financing those discussions. I'll hand that to him.

Gerardo Norcia - *DTE Energy Company - President and COO*

Julian, there is follow-up in our last rate order. The commission asked us to file a 5-year plan for our distribution business. And so what we're doing right now is working with the commission staff prior to that filing and exchanging our thoughts with them. And so in the fall, we will file a formal 5-year plan, and that will start to illuminate what some of our detailed plans are. And I think the commission wanted this because we will be in regular rate cases, and they want to the best of their ability, to be supportive of our agenda with our distribution business.

Julien Patrick Dumoulin-Smith - *UBS Investment Bank, Research Division - Executive Director of Equity Research for Electric Utilities, Alternate Energy, and IPPs Group and Analyst*

Outside of improving reliability overall, is there anything specific that this 5-year planning would be addressing, just a little bit of color ahead of time, if you have any sense yet?

Gerardo Norcia - *DTE Energy Company - President and COO*

Well, it'll certainly look at the capital plans that will be required, right? So I think there'll be financial descriptions of what we're trying to accomplish. But I think what you'll see is what Gerry mentioned, I think you'll see tree trimming be a big part of the agenda. I think you'll see automation and sensing devices at our substations as well as in our circuits. And I think you'll see modernization of wires that are old, holds that are old, substations, breakers, transformers, all of that will be described.

Julien Patrick Dumoulin-Smith - *UBS Investment Bank, Research Division - Executive Director of Equity Research for Electric Utilities, Alternate Energy, and IPPs Group and Analyst*

Got it. And then turning to the other side of the business here on the midstream side. Obviously, you articulated some pretty robust targets last year when you did your latest acquisition. How do the latest expansions that you just discussed reconcile with the ongoing kind of growth in the sort of through the 2020 period you are -- you originally articulated, e.g. how are you tracking relative to that growth plan?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

So the start is ahead of our pro forma. That's always a good thing. But we did, as you mentioned, in our long-term plan add a significant step-up in our earnings related to this acquisition. And I would look at what we've seen early on here as contribution to those long-term earnings, although the contributions come faster than our pro forma had suggested.

Julien Patrick Dumoulin-Smith - *UBS Investment Bank, Research Division - Executive Director of Equity Research for Electric Utilities, Alternate Energy, and IPPs Group and Analyst*

Got it. So on plan, to be clear.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

On long-term plan, ahead of short-term plan, right. That's the way I would look at it.



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Operator

And our next question is from Jonathan Arnold from Deutsche Bank.

Jonathan Philip Arnold - *Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst*

Gerry, just on the CHP project, the one so that's now on Slide 9. I just want to clarify, is that the same one you talked about last quarter or a different one?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

No, that's the same one we mentioned on the year-end call, and it's both a CHP project and a significant on-site energy project combined with it. And yes, that's the same one, continues to move its way through engineering detail and board approvals on both sides. So as soon as we've got specific approval to move ahead, we will fill you all in.

Jonathan Philip Arnold - *Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst*

And what are you -- what have you -- how has it progressed since February, I guess? Have you moved -- is it moved forward or is it sort of still at the same stage?

Gerardo Norcia - *DTE Energy Company - President and COO*

It has moved forward. We are in what I would call detailed contract negotiations, and both parties expect to take this to their boards before the end of the second quarter.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Actually, we've done that, and the -- in the other side is we've got a board meeting scheduled, so we expect it to go in there second quarter meeting. But yes, we're -- the stage we're in now is detailed engineering work and it should progress.

Jonathan Philip Arnold - *Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst*

And if I remember correctly, I think you said last call that you'd need maybe 3 projects of that type of scale in order to hit your targets. And then you have some other smaller things filling in around the edges. So I was just curious, is that still, is that the right way to think about this? Or will the landfill deals change the big picture at all?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Well, I think that it's still the right way to think about it. We do think there will be more of these landfill deals coming. We're working on a host of them. So there will probably be -- part of the picture that's going to be that fill in. But yes, I think the description we gave back on the year-end call is still accurate.

Jonathan Philip Arnold - *Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst*

And another thing, anything further to report on landing the other 2 sort of big ones?



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Gerard M. Anderson - DTE Energy Company - Chairman and CEO

You want to take that one, Jerry? I mean, we continue to work a portfolio, but let me give it to Jerry, who's close to that business.

Gerardo Norcia - DTE Energy Company - President and COO

Sure. I think the second one will come here shortly. I think we're in the process of finalizing that deal. And I also -- we're also looking at a slate of other projects that we're in discussions with parties with, but not as advanced.

Jonathan Philip Arnold - Deutsche Bank AG, Research Division - MD and Senior Equity Research Analyst

Okay. And I just -- if I may, on the -- you gave the update on Link. Do you have a contract percentage update there you can share or an MBC component? Or anything like that?

Gerard M. Anderson - DTE Energy Company - Chairman and CEO

Yes. So we're up a bit. We had talked about the 80. We're up a bit versus that. This moved us north a bit.

Operator

(Operator Instructions) We'll go next to Gregg Orrill from Barclays.

Gregg Gillander Orrill - Barclays PLC, Research Division - Director and Research Analyst

Is it possible to quantify the impact of the storms at DTE Electric, that you've experienced in the quarter?

Gerardo Norcia - DTE Energy Company - President and COO

We look at it from a quarter-over-quarter, it's approximately \$20 million after tax, no storm expense.

Operator

And we have a question from Anthony Crowdell from Jefferies.

Anthony Christopher Crowdell - Jefferies LLC, Research Division - Equity Associate

Moving to stuff even more exciting on DTE Electric. Just on -- just trying to familiarize myself with the Michigan proceedings. Are there designated settlement windows during the case? And what parties do you need kind of to get a settlement there?

Gerard M. Anderson - DTE Energy Company - Chairman and CEO

You're talking in our electric case?



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Anthony Christopher Crowdell - *Jefferies LLC, Research Division - Equity Associate*

Yes, please.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Yes, there aren't designated windows. We've sometimes attempted settlements, but the general course in electric cases is they've simply run their course. And unless we're surprised, that's what we'd expect here. We think it'll be a pretty straightforward case tied to investments and infrastructure, and so that would be our expectation. It's the -- by the way the last case that will play out under the former construct of 12 months with a 6-month self implementation, so we would be expecting will self-implement 6 months into the case.

Anthony Christopher Crowdell - *Jefferies LLC, Research Division - Equity Associate*

Great. And on NEXUS, you had said that I guess, you're talking about the AFUDC earnings component of the pipeline. Could you quantify what that AFUDC component would be, if the pipeline got pushed into the following year? What would be the impact this year?

Gerardo Norcia - *DTE Energy Company - President and COO*

We typically will not give project level of income but I can let you know the AFUDC does kind of approximate the income for the project once it goes in service. That's why there's really not a big material impact through '17 and '18.

Operator

And next, we'll hear from Greg Gordon from Evercore ISI.

Gregory Harmon Gordon - *Evercore ISI, Research Division - Senior MD, Head of Power and Utilities Research and Fundamental Research Analyst*

Can we go back to the comment you made about the potential increases in productivity associated with accelerating the distribution investment? Because I've been having conversations with a lot of investors about the surge and appetite for distribution spending, not just with you specifically, but with a lot of your peers across the country. And a lot of investors are very, very concerned with the affordability, sort of quotient of what that means for customer bills. I think in the past you've talked about and tried to quantify the sort of the net impact on customer bills, at least qualitatively, from updating your network and putting in new circuits, and how that can have a positive impact on costs in ways that mitigate the customer impact. Can you talk a little bit about that, please?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Yes. So why don't I talk about it, and then Jerry Norcia may have some additional comments because he's working very closely with our team on this whole agenda. So look, there are companies who moved into distribution renewal essentially because they were forced to because they had a significant sort of life-changing weather event, and they and their commissioners got together and said, this isn't going to happen again. We're going to renew harden, automate and change our distribution systems so we don't experience this. We've been out benchmarking a lot of those people, and what you see is that as you renew and automate your distribution system, a lot of what we spend money on. So tree trimming, reactive maintenance, storm maintenance, broke and fix really goes away. And so you really do -- you do have the ability to trade the benefits of a new system as well as an automated system, which allows you to reduce the number of truck rolls and so forth. You're able to trade those. Now the exact amounts and timing of that they're significant, but we really working our way through what our agenda is going to look like and the timing of it, and therefore, when we'll be able to realize those benefits. And you know you said investors are worried about affordability? Well, I've said repeatedly, if there's one thing that we're focused on at this company, it's affordability. And that's just not a slogan. We really mean it because we know that we've got to work our way through this in a way that works on a price -- from a price perspective for our customers. And so if you make



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these distribution investments and don't harvest the productivity opportunities that come with it, you really missed it. And we're not going to miss it. So Jerry, any additional insights you'd add?

Gerardo Norcia - *DTE Energy Company - President and COO*

I would just support those thoughts that really what governs our capital agenda in the distribution business is affordability. So we'd lead with our interest of our customers first, which is affordability and reliability. And the inventory of distribution investments really does exceed our affordability goals. So that's how we're building our investment agendas. We're setting an affordability goal along with a set of reliability goals, and trying to fit that altogether. If we find that our productivity, we're able to accelerate our productivity improvements then we will have the opportunity to accelerate our investment agenda in the distribution business because the inventory is very large.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

So just to loop back, I don't think we're ready to come out with specific numbers related to the productivity yet. We're still driving into those. We have a feel for the scale, but the absolute timing and so forth, we need to work our way through the timing of the agenda. But as I said, if you go back and trace companies who've done this well and their experience over time, they're real.

Gerardo Norcia - *DTE Energy Company - President and COO*

You'll find their cost structures are very, very good once they've gotten through that investment agenda.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Does that answer your question?

Gregory Harmon Gordon - *Evercore ISI, Research Division - Senior MD, Head of Power and Utilities Research and Fundamental Research Analyst*

Yes, I think -- well, it's a great start. We look forward to seeing more data on this. I think it's not to beat a dead horse, but it's an issue that's what I'm hearing increasing questions about that, I do think a lot of people have good answers and then, very hard in a numerical sense.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Thank you, sir.

Operator

Michael Weinstein from Credit Suisse has our next question.

Michael Weinstein - *Crédit Suisse AG, Research Division - United States Utilities Analyst*

I was wondering if you could talk about the strategic benefits that NEXUS enjoys over the TransCanada mainline, especially in light of their open -- successful open season recently. And how -- is there room for 3 pipes going into this region? Or is it going to be a situation where only 2 win?



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Gerard M. Anderson - DTE Energy Company - Chairman and CEO

Yes, I'll pass it to Jerry Norcia.

Gerardo Norcia - DTE Energy Company - President and COO

So let me start with 2 pipes, our pipe NEXUS and Rover. Just for clarity, those pipes connect to our Vector Pipeline, which we own with Enbridge. And those 2 pipes are really displacing the existing supply into the Vector Pipeline. We are not expanding the Vector Pipeline into Don. So there's been a notion that NEXUS and Rover are going to flood the Don market. That's not going to happen because we're going to displace supplies coming in from Chicago, which really come from Western Canada, so it's really a displacement, Western Canadian gas. And it's my expectation that NEXUS will be much more competitive to deliver volumes that are sourced 250 miles away in Pennsylvania and West Virginia. Then volumes that are sourced from 3,000 miles away in Western Canada. I know that TransCanada has made a proposal to highly discount their rates. I think the prospect of that happening will be determined by regulators, both in Ontario and Québec, as well as the National Energy Board. I think they'll be a lot of discussion around that.

Gerard M. Anderson - DTE Energy Company - Chairman and CEO

The other thing is that so Jerry was clear, we've been asked this question many times on what NEXUS and Rover, aren't they bringing a lot of incremental volume? The answer is no, it's a displacement. So we've seen the volumes -- Western Canadian gas volume from Chicago all de-contracted, as we contracted up Marcellus and Utica volumes from Ohio and geographies nearby. So those 2 don't bring any incremental. There's probably some of that dynamic going on with the TransCanada Pipeline as well, although we're not inside that one. But they have contracts rolling over as well, and so they're trying to manage their portfolio. As Jerry said, this will be a complex approval process because there are a lot of shippers and there is question of treating all shippers equally and so forth. So they'll work their way through that, but we don't expect it to be a quick process. So all that said, I meant what I said at the outset. When we get the FERC approval, shovels going into the ground and we start building. And we're really confident this can be a great addition to our portfolio.

Michael Weinstein - Crédit Suisse AG, Research Division - United States Utilities Analyst

So maybe it would be fair to say that as long as NEXUS comes in service first, which looks like a good possibility, especially if it takes a long time to get mainline approval on their re-contracting, then it would be TransCanada's project that would be more at risk, right? In terms of they would be the last to the party, so to speak.

Gerard M. Anderson - DTE Energy Company - Chairman and CEO

Well, I think shovels will certainly go in the ground and NEXUS well in advance of TransCanada, having that whole picture cleared out. But they're sourcing from different suppliers, and they're dealing with their own dynamics on that pipe. So I'm not going to speak for them or their dynamics. I'd simply say that we have a set of shippers, and we have good discussions going on with additional shippers. We got a lot of volume we think we'll bring from Ohio. We think this is going to be a great pipe to deliver our storage to other markets. NEXUS will be, deliver storage from Michigan outbound to other markets, so we really just don't see it contingent on these dynamics on TransCanada. And so as I said, when we get approval here in the coming weeks, we'll start building.

Michael Weinstein - Crédit Suisse AG, Research Division - United States Utilities Analyst

Just one last question on this. Is the remaining 1/3 that has yet to be firmed up, is that going to be firmed up as short-term contracts as you get closer to the completion, and then eventually termed out to longer term? Is that kind of a plan?



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Gerardo Norcia - *DTE Energy Company - President and COO*

We're working on terming those out long term. There may be some short-term contracts, but the primary objective is to get those contracted out. We are working with a handful of parties. I think as we see construction start on this pipe, it's our belief that we'll start to see these conversations firm up into contracts.

Operator

Our next question comes from Shar Pourreza from Guggenheim Partners.

Shahriar Pourreza - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

So just most of my questions were answered. Just if there is some sort of a delay with NEXUS, can you just remind us if there's any of these interconnection agreements that could expire? Is there any negative impact to those, if there is a delay?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

No, none of the contracts will be affected. Good contracts we have on the pipe. And the interconnection agreements in Ohio, we've signed a deal down in Northern Ohio, but a lot of those are going to play out as the pipe goes into construction. That's just what history shows. Those move when the pipe moves. I'm just going to say that we have been asked through any of our contracts customers have options the answer to that is no. They're all firm and firm for a long time.

Shahriar Pourreza - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Okay. Got it. And then just lastly, it sounds like the sticky point with getting some of these interconnection agreements to firm has been the fact that you just haven't put a shovel on the ground.

Gerardo Norcia - *DTE Energy Company - President and COO*

We've gotten one of those shippers to go firm and go long term, on 1 of those -- on 2 of those interconnects, but I think we will see a lot more of that activity go firm, once the pipeline starts construction.

Operator

And next, we'll hear from Leslie Rich from JPMorgan.

Leslie Rich - *J.P. Morgan Asset Management, Inc. - Analyst*

I just have a couple timing related clarifications. So Peter, I thought you said the accounting charge, yes, the benefit from the accounting change for stock-based options would reverse later this year? Did I mishear that?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

No. They will not. It is a permanent difference.



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Leslie Rich - *J.P. Morgan Asset Management, Inc. - Analyst*

They're permanent? Okay. And...

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

It's going through the income statement versus the balance sheet.

Leslie Rich - *J.P. Morgan Asset Management, Inc. - Analyst*

And then you said something in Gas Storage and Pipeline, you said there was some timing of some expenses that benefited in the first quarter, but that...

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

Yes, with the maintenance-related expenses of approximately \$5 million after tax.

Leslie Rich - *J.P. Morgan Asset Management, Inc. - Analyst*

And that, you expect that will flow through later in the year?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

That is correct.

Leslie Rich - *J.P. Morgan Asset Management, Inc. - Analyst*

And then finally on the REF earnings, and then lower renewable earnings, do you have any further color on what drove that?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Yes, the REF we saw are capacity factors at some of the plants were up above, really above plan in quarter-over-quarter. And then there were -- we had some sort of the same thing, but in reverse on the renewable side. We had some capacity factors that were down a bit there, so there was a trade.

Operator

And moving on, we'll hear from Paul Patterson from Glenrock Associates.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Most of my questions have been answered, but could you just may be give a little bit more color as to what you think is holding up the FERC nominations?



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Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Well, if you go all the way back to the beginning, there was a lot going on early in the administration, right? So we were hoping that if you recall the first quarter call, we were hoping they'd move a single candidate. I think they had a ripe single candidate. But they chose not to. So once they got around to getting their arms around the FERC appointment process, they decided to go with a slate. And a couple of other members of the slate didn't have their background checks and clearances, so they needed to work their way through that process. And that always takes time. You wish it could -- you wish and kind of think it would be done quickly, but it isn't. It just takes weeks to get done. And then the Senate's been on recess here recently. They just came back, so we're waiting. And the word we get -- the word we're getting, we're staying close to this, is positive, that they are moving the candidates. The vetting process is happening, that the dialogue in the Senate between Murkowski and Cantwell is active and constructive. McConnell's informed and involved in the dialogue. The dialogue is back-and-forth with the Administration. So I think the signals are all constructive, it just takes time. It's the way things are moving in Washington right now. By the way, I think the -- what we're hearing from the Democratic side on this one is that they understand the importance of these projects to jobs and moving the economy along. So, it appears that they'll play a constructive role in the confirmation process as well.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. Great. And then just on the landfill gas, could you give us a flavor, I apologize for just in terms of what the gas production outlook on the average landfill -- I mean, maybe, I am sure it's different from project to project, but how long do these -- how does the production of landfill gas, so what's the lifespan of that? If you know what I'm saying or the RP kind of...

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Yes, they can be very long-lived, 30 years or more, so they go way beyond kind of a typical contract life. And they rise and then have a gradual decline over time. But in a lot of these, they also are continuing to grow in scale, so sometimes, you'll see them rise for a couple of decades and then decline.

Operator

Our next question is from Andy Levy from Avon Capital advisers.

Andrew Levi

Kind of a follow-up on Leslie's question. So on the Corporate and Other, just understand that, I guess, it's a tax benefit that will stay? Is that what you're kind of saying? Can you kind of quantify . . .

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

That is correct.

Andrew Levi

And maybe I missed it, can we quantify how much that is on an annual basis, and how that changes your guidance that you gave in '17 for Corporate and Other?



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Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

It's \$13 million after tax, was the income goes through. And the amount is larger than we were contemplating at this point in guidance, but we also will take that in consideration.

Andrew Levi

But with that -- I'm sorry, is that \$13 million an annual number?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

It would be the annual.

Andrew Levi

Okay. And that stays? Or does that move around based on the stock price?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

It will move around a bit. Really the difference here is the stock price and the date of grant versus the date of issue -- issuance. So that 3-year window, that price change will flow through. So you'll -- you may see a little bit of changes through the year. But we issue in the first quarter, so that's where you're going to see basically the majority of the improvement pull through.

Andrew Levi

Okay. And what's the -- is there like a standard, like a number for it, like [FAS] or whatever?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

You ask if there's a standard number. I don't know that there's a standard number. Really it depends upon how your share price moves from the date of issuance to 3 years down the road. And so generally, over the past if you take the past 5, 6 years, our share price has been moving up. This would have been consistently a positive for us. On the other hand, moving up in the other direction it could be a negative. But as long as we keep performing and share price keeps responding, it generally would be a positive.

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

And this is also something we can guess and predict, so we'll put it as part of our financial planning process.

Andrew Levi

Got it. So then the \$64 million -- the negative \$64 million to negative \$60 million for '17 guidance we should add \$13 million to that, kind of that's the new guidance for Corporate and Other?



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Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

It's some contemplated in the original guidance, this is higher than we are anticipating given the stock price movement increase. We'll update once -- we'll update overall guidance later in the year.

Andrew Levi

Okay. And then the second question I have is just on the P&I, the landfill gas, the 2 investments there. Can you -- I didn't see it anywhere, but that doesn't mean that it's not there. How much the new investment is, on a dollar amount? And what type of returns are you -- should we assume on that?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

Yes, I think that's something right now since we're in deep discussions with our counterparties, we're not going to disclose it at this point in time.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

We always face this when we've got multiple negotiations with counterparties on similar projects that we don't want to get into investment amounts or returns because parties are always trying to do crosstabs between their discussion with you and other projects you're doing. So don't mean to be opaque, but it doesn't serve us when we're having these sorts of negotiations.

Andrew Levi

I apologize, I had it in my head that they were done deals, but okay. So once they're done, we'll get more details on them, I guess.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Yes, we can update you on what the segment looks like, as we get more of these that have played through.

Operator

Next, we'll hear from Kevin Fallon from Citadel.

Kevin Fallon

Just a question for you, to follow-on Andy and the P&I contribution. You said it's supposed to be about 1/3 of the roll-off in 2021. I think the last time you guys put out a slide, you showed like a \$30 million white space box. Is that the rough magnitude that you guys are aiming for? Is that the right connection?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

So we did communicate a \$30 million roll-up. And if you look at our plans, we also have a \$10 million growth over this period, so we're looking for -- it'd really be about 1/3 of the 40 number, a little more than 1/3 is what these projects will contribute to that 40.



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Kevin Fallon

Okay. That's helpful. And then in terms of NEXUS, at the filings they've made at FERC, I think they were looking for a 60% equity ratio and a 14% ROE. Is that what you guys are booking AFUDC on, and is that the right contribution in terms of a run rate for '18 and '19?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

Yes, AFUDC does approximate the operating income for the pipeline.

Kevin Fallon

So you guys are -- it's the 14% and the 60% equity ratio?

Peter B. Oleksiak - *DTE Energy Company - CFO and SVP*

Yes, and we're looking at AFUDC. It's pretty standard calculation that you go through, and approximately -- you're saying it's approximately there.

Operator

And we have a follow-up question from Paul Ridzon from KeyBanc.

Paul Thomas Ridzon - *KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst*

As you initiate this productivity initiative, do you think it's going to be meaningful enough to change your rate case cadence?

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

I think we'll still be in regular rate cases, but it has to change the amount, right? So companies that are going through fundamental infrastructure renewal without driving productivity are going to be having some big asks. And our goal -- we're going to still need to be in rate cases, but we just need to moderate the size of the ask, and that's our goal.

Operator

And that's all the time we have for questions today. Speakers, I'll turn the conference back to you for additional or closing remarks.

Gerard M. Anderson - *DTE Energy Company - Chairman and CEO*

Well, I want to thank you all for joining us this morning. I just reiterate what I said at the beginning of the call. One quarter in, I feel really good about the way things are progressing so far this year, not only on this year's earnings but on a number of the projects and investments related to future growth. So we look forward to providing you updates as we move our way through the year. Thanks again for joining us.

Operator

And that does conclude our conference today. Thank you for your participation. You may now disconnect.



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