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DTE - Q2 2015 DTE Energy Co Earnings Call

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PRESENTATION

Operator

Good day and welcome to the DTE Energy second-quarter 2015 earnings release conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Anastasia Minor. Please go ahead.

Anastasia Minor - *DTE Energy Company - Executive Director, IR*

Thank you, Heather, and good morning, everyone. Welcome to our second-quarter 2015 earnings call. Before we get started I would like to remind you to read the Safe Harbor statement on page 2, including the reference to forward-looking statements.

Our presentation also includes reference to operating earnings which is the non-GAAP financial measure. Please refer to the reconciliation of GAAP income to operating earnings provided in the appendix of today's presentation.

With us this morning is Peter Oleksiak, our Senior Vice President and CFO; Jeff Jewell, our Vice President and Controller; and Mark Rolling, our Vice President and Treasurer. We also have members of our management team with us to call on during the Q&A session. I would like to turn it over to Peter to start our call this morning.

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Thanks, Anastasia. Good morning, everyone, and thank you for joining us today. As usual, I'd like to start the call by giving a quick update on our Detroit Tigers. Good news, the Tigers have won 47 games. Bad news is they have lost 48.

Just like the first half July weather here in Detroit area has been colder than normal; the Tigers have cooled off as well this month. We are hoping as the summer heats up so do the Tiger bats and I still holding out some hope for a playoff birth.



Unlike the Tigers, here at DTE we certainly have had a successful first half of the year and I believe we are well positioned to continue this success in the balance of 2015. As all of you saw in our earnings release, we are raising our 2015 EPS guidance on strong year-to-date results.

Jeff and Mark will be going through the second-quarter results in more detail, but before we move on to that I'd like to do a quick overview of our business strategy as well as some highlights of what is happening at DTE and in Michigan.

Slide 5 provides an overview of our business strategy and investment thesis. Our growth plans for the next 10 years at both utilities are highly visible. Our electric utility growth is driven by environmental spend in the near-term and renewal of our generation fleet and upgrading the distribution system in the longer-term.

Our gas utility growth is driven by infrastructure investments and the mainline pipe replacement. Our two utilities are deploying capital in a constructive regulatory environment and we are working hard to earn this constructive environment at free day. I will be updating you on some of the regulatory proceedings our utilities are currently working through.

Complementing our utility growth are meaningful growth opportunities in our non-utility businesses which provide diversity in earnings and geography. A highly engaged workforce continues to be the key to our success.

Last quarter I told you about the third consecutive Gallup Great Workplace Award and just recently DTE Energy received the Development by Design Award from the Gallup organization. The award recognizes DTE's focus on creating personal, team and organizational success through employee training programs. So we definitely continue to make strides in our employee engagement efforts.

We have a strong focus on continuous improvement and feel we are distinctive in the industry on our approach and outcomes. The combination of these two, employee engagement and continuous improvement, enables us to deliver both a sustainable cost savings track record and to consistently earn authorized returns at both of our utilities.

We are also very focused on operational excellence and customer satisfaction that we believe also are distinctive in our industry. We have certainly seen positive results on this front as currently DTE Gas is ranked highest by J.D. Power among our peers for residential and business customer satisfaction.

And earlier this month we found out that DTE Electric was ranked second in overall customer satisfaction with electric utility residential customers in J.D. Power's 2015 study.

Our dividend continues to grow as we grow earnings and our goal is to maintain a strong BBB credit rating. This strategy provides for consistent 5% to 6% annual EPS growth.

Slide 6 provides some highlights of progress in 2015. First on our list is our announcement that we are increasing our operating EPS guidance for this year. We are increasing from an EPS midpoint of \$4.60 to \$4.72. This is driven by strong performance in our Gas Storage & Pipeline business as well as our Energy Trading operations. I will provide a more detailed overview of guidance in a few minutes.

Keeping in line with our commitment to grow our dividend with earnings, we have recently increased our dividend. Our annual dividend per share was increased from \$2.76 to \$2.92, which is a 5.8% increase.

Regarding Michigan's energy policy, I feel there is positive momentum for the constructive legislation by the end of the year. This continues to be a priority of the governor and he called out publicly the need to get legislation done this year.

Back in March representative Aric Nesbitt introduced legislation and recently the Senate lead Mike Nofs introduced legislation, so the process is definitely moving along. I will touch more on the energy policy in a few minutes.

I also want to give a quick update on the various rate proceedings for our two utilities. Our electric utilities self implemented rates on July 1 for the ongoing general rate proceeding. We expect to receive a final order by the end of the year.

We also implemented our new cost of service rates which resulted in rate reductions for many of our business customers. For DTE Gas we expect to receive an order this year for an expanded infrastructure recovery mechanism that, if approved, will allow us to double our annual miles of our mainline replacement program.

We continue to make significant progress in our non-utility businesses. In our Gas Storage & Pipeline business, Millennium had a successful open season and we are working through final contracts now. We expect an expansion of greater than 0.2 BCF.

In addition, we are constructing a new eight mile lateral off Millennium to serve a proposed 650 megawatt combined cycle plant with approximately a 0.1bcf/day of natural gas. These projects are expected to be in service in the fourth quarter of 2017. This is another major milestone that helps firm up future year growth.

The NEXUS Pipeline project is also moving forward nicely towards its fourth-quarter 2017 in-service date. The FERC scoping meetings are complete and were relatively routine.

We recently signed a number of tap and interconnection agreements that could provide potential aggregate load across northern Ohio up to 1.3 BCF per day. This demonstrates strong market support for the project and also strengthens the longer-term earnings potential for the play.

We filed our resource reports in June with the FERC as scheduled and our next major milestone will be to file the FERC application in the fourth quarter of this year.

We are also now very focused on optimizing our reduced emissions fuel business. Currently we have REF facilities operating at eight sites and are in the process of relocating underutilized facilities to a ninth site, which should be operational in the fourth quarter.

In addition, this quarter we are operating a third-party REF facility. This operating agreement will run through 2020. We will continue to work towards further optimization of this business line as this has been a great return business for us which should generate significant cash flows to help fund our non-utility growth projects.

So you can see we have had a successful first half of the year giving us confidence to reach our earnings goal in 2015. Let me now move to updates on the Michigan improvements and the economy.

So turning to slide 7, we are highlighting the progress that Michigan in the city of Detroit are making. I know many of you are interested in how the local economy is doing and we continue to see economic momentum in the state.

Michigan's unemployment rate in June is 5.5%. This rate has been around 5.5% the last three months, roughly in line with the national average. Michigan's unemployment rate hasn't been at this level since 2001.

Michigan is identified by the Site Selection magazine as being the seventh most competitive state for job creation, as well as the number one state for new manufacturing jobs since 2009. We continue to see other economic indicators, including increases in residential customer and business customer accounts. And our forecast shows this trend continuing.

I do want to highlight the city of Detroit's economic progress. One indicator that we show on the slide is the Detroit Metro area as ranking number eight in the US for number of new or expansion projects.

The city has come a long way since bankruptcy and with the strong leadership we have in place I am confident the city will continue to move forward. DTE, as well as other city partners, are working with them to help continue this momentum.



You will see on slide 8 that the additional changes in the state are taking place as the Michigan Public Service Commission has welcomed Norm Saari as the new Commissioner replacing outgoing Commissioner Greg White whose term has ended.

Commissioner Saari has a deep background in public policy and governmental and community affairs both in state government and direct utility experience. This is Governor Snyder's third appointment and the governor had been great at talent selection.

The Commission has helped Michigan regulatory environment to be one of the most constructive in the country. We believe that Commissioner Saari will continue this supportive environment.

Moving on to slide 9, I am now going to turn to an update on the energy policy. As I mentioned earlier, Governor Snyder has made it clear that energy policy is an important legislative priority for him this year.

He called out the need for legislation during the state of the state address and provided more detailed goals in his energy message in March, highlighting the significant transformation in generation sources that our state will undertake over the next 10 to 15 years.

And over the last few months, both the House and Senate energy leaderships have introduced proposed legislation to address needed changes in the state.

Representative Aric Nesbitt, who chairs the House energy policy committee, introduced legislation in March that is consistent with the governor's goals of reliability and adaptability. He also recommended the elimination of the retail access program we have here in Michigan, which we support.

Senator Mike Nofs, who chairs the Senate energy and technology committee, introduced legislation in June which is also similar to the governor's goals. He is recommending to maintain a 10% cap on retail open access but with a one-time election to enter into long-term capacity commitment with an alternative supplier or to return to the utility.

A customer could choose to return to the utility with three-year notice and as a one-time permanent election to return to the utility.

We expect legislation to be completed this year and we are confident that Michigan has strong leaders in place that understand energy and utilities dynamics and provide constructive legislation for Michigan's future. All the proposals on the legislative drawing board represent a positive move forward.

In a moment I will turn the call over to Jeff to review the quarter results, but before that I wanted to highlight -- provide some highlights of our outlook and guidance increase.

On slide 10 -- this slide shows our EPS history with our target of 5% to 6% growth. As I mentioned before, we expect to grow our dividend with earnings evidenced by our recent increase.

The chart shows a revised 2015 guidance midpoint of \$4.72 as well as our EPS guidance midpoint of \$4.66 for growth segments. The 5% to 6% future growth, as I mentioned, is off our new guidance growth segment midpoint of \$4.66 per share. Our commitment is to grow both earnings and our dividends and we are just doing that.

Let me get into a little more detail on page 11. We are increasing our 2015 EPS guidance range to \$4.54 to \$4.90 for DTE Energy. This is a \$0.12 increase in the midpoint from our prior range of \$4.48 to \$4.72.

Our EPS guidance range for our growth segments is now \$4.54 to \$4.78. Our guidance increase is driven by a strong start of the year in our Gas Storage & Pipeline segment with increased Pipeline and Gathering earnings.



2015 operating earnings guidance for this segment has increased from a range of \$80 million to \$88 million to a range of \$90 million to \$98 million. The majority of this increase is due to strong underlying performance in the business and therefore we expect the majority of this favorability to flow into 2016.

For our Energy Trading business we have raised our earnings guidance to a range of \$0 million to \$20 million for 2015. Energy Trading is not part of our growth segment and original guidance was set at zero as we do not rely on this business to achieve our earnings target.

As this year is progressing we are recognizing the strong economic performance and have adjusted our 2015 guidance accordingly. Trading does have seasonality tied to the physical part of its business and those contracts mostly make money in the first and fourth quarter.

And with that I would like to turn the call over to Jeff Jewell, our Vice President and Controller, to provide more details on the second-quarter earnings results.

Jeff Jewell - DTE Energy Company - VP & Controller

Thanks, Peter, and good morning, everyone. I will be discussing quarter-over-quarter earnings results on page 13. And on page 14 I will review our electric sales in order to provide more insight into what we are experiencing.

Now, turning to page 13. For the quarter DTE Energy's operating earnings were \$137 million or \$0.76 per share. And for reference, our reported earnings were \$0.61 per share. You can find the reconciliation of the second-quarter reported operating earnings on slide 26.

For the quarter-over-quarter results our growth segment second-quarter operating earnings in 2015 were lower by \$4 million or \$0.03 per share. The electric segment was lower by \$18 million. This was primarily due to increased costs, associated rate based growth and unfavorable weather, partially offset by lower O&M.

The gas segment was lower by \$3 million driven by unfavorable weather in the second quarter of 2015. Gas Storage & Pipelines' earnings were \$7 million above the prior year. This increase was primarily due to the volume growth in the Bluestone Pipeline and Gathering assets.

Our Power & Industrial Projects segment was up \$5 million versus 2014. Quarter-over-quarter favorability was primarily driven by strong performance across all business lines.

Our Corporate & Other segment came in favorable by \$5 million versus last year. This variance is mainly due to tax-related timing differences. The overall growth segment results for the quarter were \$134 million or \$0.75 per share.

At Energy Trading operating results for the quarter came in at a positive \$3 million with economic net income of \$19 million. Both the Power and Gas business lines contributed to these results. Please refer to page 24 of the appendix to review the Energy Trading standard reconciliation page which shows both economic and accounting performance.

Now let's turn to page 14 to discuss our electric sales results. For the first half of the year temperature normalized electric sales were down 0.7%. We are very encouraged by the drivers of this change year to date and for the future.

This net change reflects both the underlying economic growth in all sectors and that energy efficiency is making positive impacts to reduce customer average usage. The economic increases are being driven by population growth, occupancy rate strength, income growth and manufacturing and auto production levels that have surpassed prerecession levels.

Energy efficiency, which is producing positive results for our customers, is a key component of our overall operational and financial plans and a key priority for the governor.

This efficiency translates into reductions of the average energy bill for our residential customers, which is one of the key components of our long-term strategy to create affordability headroom as we embark on a very intensive capital investment program.

Therefore, we are changing our sales forecast as we anticipate our load growth over the next few years to be close to flat as underlying economic growth and energy efficiency play out.

That concludes the update on our earnings and sales for the quarter. I would now like to now turn the discussion over to Mark who will cover cash flow and balance sheet metrics.

Mark Rolling - DTE Energy Company - VP & Treasurer

Thanks, Jeff, and good morning to everyone on the call. In addition to the solid earnings results that Jeff just described, we delivered solid cash flow and capital investments for the first half of the year as well. And all of that is underpinned by the strength of our balance sheet.

Slide 16 lays out our cash flows and CapEx through the first half of the year. Cash from operations is \$1.2 billion, which is up slightly over last year and in line with our plan. We saw strong cash flow performance across all the business units and are reaffirming our full-year cash from operations guidance of \$1.7 billion.

We invested \$1.1 billion of CapEx in the first half of the year and on the right side of the page you can see the breakout by business unit.

DTE Electric is higher due primarily to the acquisition of the gas peaker back in the first quarter, partially offset by the timing of wind investments between years. And there are some year-over-year timing differences in our nonutility businesses as well. So total year-to-date CapEx is on track with our plan and consistent with our full-year guidance of \$2.5 billion to \$2.6 billion.

Finally, to fund this CapEx program and to pay down commercial paper balances, we issued \$800 million in long-term debt financing in the first half of the year.

Now I will move to slide 17 with a look at our balance sheet metrics. In short our balance sheet remains strong and we project ending the year within our targeted range for both leverage and FFO to debt.

We issued \$200 million of equity back in the first quarter, which fulfilled our equity needs for the year, and there is no change in our plans to issue \$800 million to \$900 million of new equity through 2017.

We continue to take advantage of the low interest rates by issuing \$300 million of seven-year debt at the parent company, which is where we find most investments at our non utilities.

Early in the quarter we met with the rating agencies and they all reaffirmed our current ratings outlook which demonstrates our commitment to maintaining a strong BBB credit rating.

And lastly, after renewing our credit facility back in April, we ended the second quarter with a comfortable \$2.2 billion of available liquidity. And now I will hand the discussion back over to Peter to wrap up.

Peter Oleksiak - DTE Energy Company - SVP & CFO

Thanks, Mark. Yes, let me finish the presentation with a quick summary on slide 19 and then we can open the line for questions.

We had a very good quarter as well as first half of the year and we are confident as this year's performance will allow us to achieve our increased 2015 EPS guidance. We increased our annual dividend 5.8% to \$2.92 per share, keeping our dividend growth in line with earnings.

We anticipate successful outcomes this year for both our utility regulatory filings as well as Michigan energies policy reform.

Our balance sheet and cash flow metrics remain strong and our investments in our utility and nonutility businesses support our target 5% to 6% EPS growth going forward.

I would like to thank you all for joining our call this morning and I invite you all to join us for our investor meeting in Detroit on September 28. We have a great lineup of speakers for our meeting and plan to give you insight into continued evolution of the Michigan and Detroit development and the economic growth that supports our long-term plan.

Formal invitations will be delivered in the coming weeks and our business update will be available as a webcast from our Investors site.

Now I would like to open it up for any questions that you have. So, Heather, you can open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Weinstein, UBS.

Julien DuMoulin-Smith - UBS - Analyst

Hi, good morning, it is Julien. So first, a quick question here on the sale side. Just curious what is the nature of the idling you have alluded to here on the Industrial side just perhaps if you could expand upon what your expectations are there.

And then perhaps related to that on the -- in terms of future rate case filings, how are your expectations for lower sales and efficiency driving expectations there as any changes?

Peter Oleksiak - DTE Energy Company - SVP & CFO

Sure, for the idling, that occurs mainly in our automotive-related segments. There are model turnovers, so as they are creating brand-new vehicles and new models you will see that from time to time.

That is really what that is related -- that is really one time in nature and (inaudible) you will see the level of new models that are -- which is great news for our auto companies that are being produced here.

For the energy efficiency, I guess first I just want to talk about that a little bit. We are really pleased with the level of energy efficiency in our service territory and we have been really working hard at this over the last five years. And I believe we are on the leading edge of some of our -- some areas of energy efficiency especially in delivering tools to our customers to save energy.

You recall -- if you actually saw the March energy addresses the governor gave, he actually held up his smartphone and had the DTE Insight app there. So we have actually kind of cracked the code of our AMI technology and how do we deliver that real-time to our customers to usage.

So even though energy efficiency increases, maybe over time the electric rate over time, but it does lower customer bills which provides headroom for rate increases needed to cover new capital investments.

So I know your question, Julien, was what does that do from our rate case strategy. Our rate case timing really is tied to the capital investment we have over and above depreciation. So it is really going to be tied -- it really doesn't impact the timing of that.



And what we are seeing actually when -- that it will provide headroom for us from a total customer [book] perspective to get recovery of that new capital investment.

Julien DuMoulin-Smith - UBS - Analyst

Excellent. And just turning to the midstream side quickly. Can you talk about an update on your existing partnerships, specifically on NEXUS And then separately, just broadly speaking, strategy as it relates to gathering versus perhaps pipes, etc. You have other partnerships and there as well. I would be curious how that is evolving and the nature of the business.

Peter Oleksiak - DTE Energy Company - SVP & CFO

Yes, on the ownership side, and I know probably the question is around on the Enbridge and the ownership of the pipe. So Enbridge is still considering ownership; they have been very public and very supportive of the pipe.

Our current disclosure assumes the one-third ownership. So if they don't participate we will have a larger ownership of a great project. So they are still in the process of considering ownership in the project.

On the gathering side, and as evidenced by this year-to-date result and our guidance increase, we are seeing great results on the gathering business. This was a business that we started in 2012 with a partnership with Southwestern Energy.

So as we have been going down our learning curve and cost curve it has really helped us with that relationship and that is a business that we liked as well. Because, as we get into new projects like NEXUS, the idea there is to do a very similar blueprint of what we are seeing on Millennium that you work with producers, get gathering and laterals that will feed into NEXUS.

So, we continue to look at those opportunities. And I do believe in the future they will be there for us related to NEXUS.

Julien DuMoulin-Smith - UBS - Analyst

Excellent. And sorry -- just a clarification. In terms of Enbridge's timeline for a decision, do you have any sense?

Peter Oleksiak - DTE Energy Company - SVP & CFO

Yes, I really don't. I know they have been public about it. They are mainly an oil based company, an oil pipe, but they are trying to grow their gas piece of the business and they have been public around that. But I would imagine they are going through that process right now and they probably want to be making a decision at some point.

Julien DuMoulin-Smith - UBS - Analyst

All right. Well, thank you very much. Congrats again.

Operator

Dan Eggers, Credit Suisse.



Dan Eggers - *Credit Suisse - Analyst*

On the guidance bump for the quarter and kind of resetting the baseline going forward, what structurally are you seeing is giving you more confidence to lift the starting point for growth from here?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Yes, on the midstream we are seeing mainly within the Gathering segment and the drilling related to Southwestern. So what we saw in the first half is that there is some upside. Some of this was acceleration of drilling which is positive as well, because Southwestern is allocating capital and drilling to this region.

Even with the relatively low cost price environment most of the increase is tied to the higher well performance. That well performance in volumes will continue to flow. So that is a permanent increase for us.

And the great thing about this, and this is where you talk about our strategy of having these interconnected assets, that it really amplifies income. So we are seeing those volume increases then occur on Bluestone then occurs on the Millennium Pipeline as well. So we are feeling really comfortable with those volume increases that are tied to the well performance there.

Dan Eggers - *Credit Suisse - Analyst*

So that step-up is what is giving you confidence in the sustainability, it is not an assumption of sustained higher trading value?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

No. No, that's tied to our Mid-Stream segment.

Dan Eggers - *Credit Suisse - Analyst*

Okay, got it. And then (multiple speakers) how should we think about what you guys are going to do to be able to earn your ROEs at electric given this lower demand growth or the flat demand growth outlook between rate case periods?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

We will be planning on that, so some of that is that we have a forecasted test year here. So we are forecasting -- we will continue to forecast energy efficiency. One of the things we are looking at right now from a load perspective is that we are anticipating a flat load at this point in time.

At one point in time we were anticipating probably like a 0.5% type of increase. But once again we are pleased with the results. As we have been really focused on energy efficiency -- so we have upped our energy efficiency.

And if you look at the legislation that is proposed in the governor's -- his areas of priority, energy efficiency is going to be a key component as we think through our generation planning and our integrated resource planning process. So we will continue to forecast. So it really is just getting the right denominator.

Dan Eggers - *Credit Suisse - Analyst*

Just one more (multiple speakers). Sorry, Peter, go ahead.

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

I guess the supplement -- that we have a proven track record around cost management as well. So that is something that will continue to (inaudible) in between rate proceedings as well.

Dan Eggers - *Credit Suisse - Analyst*

Okay and then I guess just one more on the NEXUS side. Can you walk through what you are seeing, quantifying the gathering opportunities, how much capital can go into that? And what is the level of interest for incremental projects you are hearing from customers at this point?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Yes, it is probably too early to say what the capital plans will be. We do see they are out there. There was a recent report that came out that the Utica region reserve forecast has gone up again. So every forecast that comes out on the Utica shale, it goes higher and higher. So we know that they will be there.

And as we are proving out our Gathering business line in Southwestern, that is really helping us as we are talking to producers in the region as well.

So it is too early to say, but I would just say that there is a lot of opportunity there and will help as you think through the Mid-Stream segment. Not only in this five-year projection we provided that, but beyond that five-year period, Gathering will be a piece of that.

Dan Eggers - *Credit Suisse - Analyst*

Got it. Thank you, guys.

Operator

Shar Pourreza, Guggenheim Partners.

Shar Pourreza - *Guggenheim Partners - Analyst*

Just on the Enbridge ownership stake in NEXUS, is there a point when DTE makes a strategic decision to take on the additional ownership? So like the Enbridge ownership has been open for some time, is there sort of a deadline that you have internally within the Company?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

We don't really have a firm deadline with them. And as I mentioned, we like them if they are in the project and if they are not. So it is something that we don't -- we are not really pushing at this point in time.

If they are not in the project we have a larger percent ownership of a great pipe. If they are in the project it does from a strategic perspective -- they have ownership interest in Vector and they have demand or off takes on the back and with their LDC, it helps from a long-term strategic perspective. But there is no firm deadline at this point in time for them.



Shar Pourreza - *Guggenheim Partners - Analyst*

Got it. And then as you approach yearend with the open access policy, any idea how it is going to shake out with obviously three different competing proposals?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Actually I would characterize the proposals as complementary and they are all focusing on the same thing. So all the proposals on the table are really aimed at eliminating -- there is two major flaws we have right now with the retail access program in Michigan.

One of them is this free option to move back and forth from utility to retail open access back to utility. So all of the proposals address that.

There is either a one-time election to the utility. If you are going out onto the market you need to have some type of capacity. The range right now is three to five years in the proposals.

The capacity does address the second flaw we have which is there is a heavy subsidization that is happening right now with our bundled customers to retail open access. So it really does have put a more level fair playing field around that as well.

So the economics with the customers on retail access will change and because of they really get into more of the true cost of being on the program. And this permanent -- more permanent type of election as well will impact their decision.

So it is really too early to tell how much of the 900 megawatts will come back. And if there is election to come back the timing of that return will be tied to the individual contracts with those customers.

Shar Pourreza - *Guggenheim Partners - Analyst*

Got it, got it. And just one last question on the guidance in Energy Trading. It looks like the top end of the guidance assumes an additional \$5 million in earnings. Could we -- is it fair to assume that is sort of a fourth-quarter recognition just given the way the segment recognizes earnings historically?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Yes, I would say that. You actually -- from time to time you may experience even a slight loss in the third quarter. Because a lot of our contracts and earnings are tied not to physical deals with gas and power delivery in the first and fourth quarter.

Shar Pourreza - *Guggenheim Partners - Analyst*

Excellent, congrats. Thanks.

Operator

Greg Gordon, Evercore ISI.

Greg Gordon - *Evercore ISI - Analyst*

I have a question with regard to gas service area sales. If you look at the Q2 2015 numbers versus Q2 2014 numbers you had a really big negative swing in residential, commercial, industrial, but then a very positive comp on end-user transportation. Is the former just weather driven and what is the latter being driven by?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Jeff, do you want to handle that one?

Jeff Jewell - *DTE Energy Company - VP & Controller*

Yes, that is exactly what we are seeing is just a combination of -- from the weather. Obviously the weather is what is driving the quarter-over-quarter year-over-year. And in the end transport just seeing more volume on that front just from additional load in those things.

Greg Gordon - *Evercore ISI - Analyst*

Okay, that was my only question. Thank you.

Operator

Matt Tucker, KeyBanc.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

Just noticed with the revised guidance that you widened the range a little bit. Can you just talk about the key sensitivities you had in the second half and what kind of gets you to the high or low end of the range?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Yes, the widening of the range, a lot of that is tied to the Energy Trading segment now that we do have a range for that. So that is really what -- the tie there. And the key sensitivities for us are just continued strong performance.

On the utilities, a lot of that will be tied to what is happening on the weather front and the weather would be load as well a storm-related activities. At the gas utility as well there is fourth-quarter heating load, some variability that will occur there as well. So the utilities, a lot of it at this point in time is tied to weather and weather-related type of income.

In our non-utilities just continued strong performance. For our Mid-Stream segment, we have upped the guidance for that segment so we are comfortable now with that range.

For our Power & Industrial segment, if you look at it from a year-to-date perspective, they are roughly \$50 million with the top end of guidance at \$100 million. So they continue the performance we have seen in the first half, they potentially could be near the upper end of guidance for that segment.

Matt Tucker - KeyBanc Capital Markets - Analyst

Got it, thanks. And just a follow up to that. I guess we are about three weeks into July. How has the weather been I guess so far this quarter? And were you able to factor that into the guidance?

Peter Oleksiak - DTE Energy Company - SVP & CFO

Jeff?

Jeff Jewell - DTE Energy Company - VP & Controller

Yes, yes we factored that into the guidance and so far the first half, like Peter mentioned in his opening comments, the first part of July was a little cooler, but then so far here in the last week or so it has been above. And so we will just see how that plays out. But, yes, all of that has been contemplated in our guidance.

Matt Tucker - KeyBanc Capital Markets - Analyst

Thanks. And then just on the lower load growth expectations going forward. You have kind of addressed this, but just big picture how does that affect your long-term expectations? And does it affect your earnings guidance for DTE Electric, the long-term earnings guidance you have provided? And are there kind of offsets that we should be considering?

Peter Oleksiak - DTE Energy Company - SVP & CFO

There is no impact at all to the earnings guidance for the utility. The utility business at this point and where the money and earnings are tied to is the new capital investment. For our generation replacement strategy, we talked about that with all the coal retirements. But also our distribution company.

We are going through a big replacement and upgrading plan. We are going to be sharing some of that at our Analyst Day here in September as well.

So the flat load for us, and we were relatively modest even to begin with prior to this new change of 0.5%. One thing we are looking at right now is, and a metric we are really going to be moving towards, is total bill, what is happening with your total bill.

The way it works for customers is there is this power supply cost that is a pass-through that goes away when the usage is down. We have a base rate increase tied to the distribution investments and charges. The customers actually experience decreases in total bills even when rates are increasing if their usage is down.

Matt Tucker - KeyBanc Capital Markets - Analyst

And if I could just ask one more. How confident are you that there will be energy policy legislation this year? And are there any kind of key dates we should be thinking about?

Peter Oleksiak - DTE Energy Company - SVP & CFO

Yes, as much as you can be with a political process. But I know the governor has been pretty strong around signaling. He wanted to be done by the end of the year. Even recently Senator Nofs has been out there publicly saying he wants it done by the end of the year. They are -- so all the signals and momentum is for this to get done this year.

Matt Tucker - KeyBanc Capital Markets - Analyst

Thanks a lot. That is all for me.

Operator

Andrew Weisel, Macquarie Capital.

Andrew Weisel - Macquarie Research - Analyst

First question on retail open access. You touched on this, but I want to ask in a slightly different way. If we take the Nofs proposal at face value, I am sure things will change. But if it were exactly as written, how much of the load do you think would come back and how quickly?

Peter Oleksiak - DTE Energy Company - SVP & CFO

It is really too early to determine from the details of that. I would imagine for him he did have -- you need to -- if you are going to stay on the program -- first of all, there is an election. If you take the election back to utility it is one time.

So that is this free option going away, we'll probably have some of the retail open access customers take a pause and wanted to -- whether they return or not. If they do stay on the program they are going to have to get capacity. And the Nofs proposal I believe was from a three-year perspective.

So each customer will have individual economics and the changes to their economics. That and coupled with market prices and our sense is that market prices will be increasing as supply/demand -- and supply tightens as well.

So it is really I guess -- roundabout, Andrew, it is really too early to say. I can say I would imagine some of those 900 megawatts probably would be coming back given the changes, the structural changes that will be occurring with all the proposals that are out there.

And the timing of that could be relatively quick, but a lot of that will be tied to the individual contracts with these retail open access customers.

Andrew Weisel - Macquarie Research - Analyst

And how long do those contracts typically run?

Peter Oleksiak - DTE Energy Company - SVP & CFO

We don't really have insight into that.

Andrew Weisel - Macquarie Research - Analyst

Okay. Fair enough. Next question is on energy efficiency. The new expectations you have for load growth, is that based on the -- again the Nofs proposal, or is that some other DTE view of what energy efficiency programs will look like going forward?

Peter Oleksiak - DTE Energy Company - SVP & CFO

It is the DTE Energy forecast. Some of that is -- we have been working hard at this for five years as I mentioned. In many ways -- I think in many cases I said we are leading edge.

So it is realizing the adoption of these energy efficiency programs, they are occurring even faster which is great for us and our customers. So it really is tied to what we are seeing there and the projecting of that going forward.

Both the Nofs and the Nesbitt proposals, versus having a mandate, kind of working that and integrating that part of the integrated resource planning process. And that governor has been really public around energy efficiency.

So it is going to be part of our generation planning will be what level that will be covered off and energy efficiency. And as you know, even the clean power plan, the EPA requirements gives you credit for energy efficiency.

Andrew Weisel - Macquarie Research - Analyst

Okay, great. Then lastly, I know decoupling is something -- electric decoupling is something being floated in these proposal legislations. What are your views on that?

And in light of what we just talked about with the load growth forecast, would your preference be for full decoupling or something only for energy efficiency?

Peter Oleksiak - DTE Energy Company - SVP & CFO

We will work through those details, but I can say broadly that we are supportive of energy decoupling.

Andrew Weisel - Macquarie Research - Analyst

Fully or partially?

Peter Oleksiak - DTE Energy Company - SVP & CFO

We are still working through that. I would say this; as far as I think having some, it is as are thinking through there is probably merits to both, either one of those different proposals.

Andrew Weisel - Macquarie Research - Analyst

Okay, thank you very much.

Operator

(Operator Instructions) Steve Fleishman, Wolfe Research.

Steve Fleishman - Wolfe Trahan & Co. - Analyst

Just one other question on the Gas Storage & Pipelines upside. So you guys typically give kind of like a five-year look on these businesses, and I know you mentioned you expect this to continue into 2016. All else equals, is this something that you see as kind of benefiting the 5-year look?

Peter Oleksiak - DTE Energy Company - SVP & CFO

Yes, it definitely helps I would say firm up that 5-year projection.

Steve Fleishman - Wolfe Trahan & Co. - Analyst

Okay. When you say firm up, it was still that little bit of -- I guess it was the white part or whatever in the bar chart. Is that what you mean by that?

Peter Oleksiak - DTE Energy Company - SVP & CFO

We are still going -- we're in the midst right now of our longer-term planning process, and we will be providing an update at our analyst meeting.

Steve Fleishman - Wolfe Trahan & Co. - Analyst

Okay. And then I know going to the P&I business, I think in some meetings we have had, you have talked about co-generation being maybe a potential growth area. Any updates on opportunities there?

Peter Oleksiak - DTE Energy Company - SVP & CFO

No, it really is -- we do see if you think through the opportunity set, co-generation is one. So we continue to work through those opportunities. There is some projects we have in place right now and are getting into service. So probably not a lot of update since the last meeting, but we continue to be optimistic on the site and getting the projects for this segment to grow, as we indicate in terms of these 5-year growth prospects.

Steve Fleishman - Wolfe Trahan & Co. - Analyst

Okay, thank you.

Operator

Paul Patterson, Glenrock Associates.

Paul Patterson - Glenrock Associates - Analyst

Just a few quick ones following up on the energy efficiency. With the flat growth, how much of this is based on sort of your efforts at energy efficiency? In other words, if we were to take out your efforts of energy efficiency, what would you guys estimate the impact of sales growth to be?

Peter Oleksiak - DTE Energy Company - SVP & CFO

Yes, without the energy efficiency it is roughly about -- Jeff, you'd say about 0.5%?

Jeff Jewell - DTE Energy Company - VP & Controller

Yes (technical difficulty).

Peter Oleksiak - DTE Energy Company - SVP & CFO

We look through -- and what we are doing right now, we are in a new era right now with this energy efficiency. And historically you look at your load growth tied directly to economic activity. So we still look at that, but now with the energy efficiency that is after that.

So our customer counts are increasing, so that is one of the things we look at and the overall level of activities within the businesses. It is really the usage that (inaudible).

Paul Patterson - Glenrock Associates - Analyst

Do you see any difference between an IRP versus a mandate in driving energy efficiency going forward? Because of the two different -- differences in legislation.

Peter Oleksiak - DTE Energy Company - SVP & CFO

I would say no because the IRP, really that is going to be like a one-stop shop for us. Right now, and really the movement is potentially away from these mandates where you have a mandate for RPS or a mandate for energy efficiency which is all tied to generation-related spend, to have it in one place.

So in that IRP process there will be discussions and agreements around energy efficiency as well as renewable spend. So I would say it doesn't, it is really just changes the location of where the discussions and the process -- where the discussions will be occurring.

Paul Patterson - Glenrock Associates - Analyst

Is there any -- of all the proposals and the legislation that you guys outlined very nicely in the presentation, is there any one that we should think of as being a significant difference in terms of what your earnings outlook would be or would change the -- where you would be in the range (multiple speakers)?

Peter Oleksiak - DTE Energy Company - SVP & CFO

No, I think they all are relatively close. Aric Nesbitt has the elimination of retail open access program, we support that the most. But all the proposals are addressing. And probably the one area that I think we are focused on, as you are as well, is the retail open access. But all the proposals address the unfairness of the current program.

Paul Patterson - Glenrock Associates - Analyst

Okay. And then with NEXUS there have been some suits associated with access for surveying purposes and what have you. Is there -- are those significant events? Or I mean, they seem to be happening in local courts. Are these sort of run-of-the-mill stuff or is there --?

Peter Oleksiak - DTE Energy Company - SVP & CFO

It is. The FERC community meetings and that process is really going well. And so, we are -- so we feel pretty good -- really good about that process. And it is relatively routine. A lot of that is just really determining the final path of the pipe of those -- those meetings are necessary. And as we finalize that path it definitely helps us as we drive towards our fourth-quarter application filing.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. And then just on the Gas Storage & Pipelines, it sounds like you guys were having a very good 2015 but that it may be a little bit of a slowdown in 2016. I don't know if I heard that correctly. Could you just elaborate that? That was in your prepared remarks. I just wanted to understand what the outlook is going forward with Gas Storage & Pipelines.

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

It is. And what I indicated is that we're seeing the first half of the year increase in our Gathering & Pipeline business, that a majority of that will flow through.

Some of that is acceleration of drilling, which is also positive because Southwestern is really resourcing and allocating drilling resources here in the region. But we have our new growth segment EPS midpoint; we are now saying we are going to grow 5% to 6% off of that. So we --.

Paul Patterson - *Glenrock Associates - Analyst*

Right. Okay, so although -- so in other words, generally speaking obviously you guys feel very confident in raising your guidance and also your growth rate. And we shouldn't think about anything I guess materially sort of dragging -- in other words it doesn't seem like -- you are not pulling anything from 2016 into 2015 that is going to affect your long-term growth rate, is that the way to think about it?

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Yes, the growth rate is off our new growth segment guidance midpoint. So we -- as we took a look at 2016 and what we are seeing here in the Mid-Stream segment as overall what is happening in the businesses, we are feeling comfortable and confident of not only raising the midpoint of guidance this year but saying their 5% to 6% will be on that new growth segment.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, great. I appreciate it. Thanks a lot.

Operator

It appears there are no further questions at this time. I will turn it back over to our speakers for any additional or closing remarks.

Peter Oleksiak - *DTE Energy Company - SVP & CFO*

Once again I would like to thank everybody for joining us on the call today. And if you all could say -- and try to root on my Tigers a little bit I would appreciate that. And I also want to once again remind you on September 28 that we have our event here in Detroit. So if you can kind of save that date and look forward to seeing you then. Have a good day.

Operator

That does conclude today's conference. Thank you for your participation.

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