FINAL TRANSCRIPT

Thomson StreetEvents℠

DTE - Q3 2010 DTE Energy Company Earnings Conference Call

Event Date/Time: Oct. 29. 2010 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

David Meador
DTE Energy Company - EVP, CFO

Peter Oleksiak
DTE Energy Company - VP, Controller

Nick Khouri
DTE Energy Company - VP and Treasurer

Don
DTE Energy Company - Unidentified Company Representative

CONFERENCE CALL PARTICIPANTS

Operator

Kevin Flaherty
Credit Suisse - Analyst

Ashar Khan
Visium Asset Management - Analyst

PRESENTATION

Operator

Welcome to the Third Quarter 2010 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. David Meador. Please go ahead, sir.

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

Thank you. Good morning and welcome to our third quarter conference call.

Before we get started, I encourage you to read the safe harbor statement on page two, including the reference to forward-looking statements. With me this morning are Peter Oleksiak, our Controller, Nick Khouri, our Treasurer, and Mark Rolling, our Director of Investor Relations. I also have will me members of the Management team that I might call on during the Q & A session.

If you can turn to slide five, let me start with an overview. We've talked about our investment thesis on a number of occassions. This lays out our financial aspirations, and highlights what we, as a management team, are focused on. Our financial plans support our target of 5% to 6% long term earnings per share growth, and attractive dividends, which we increased by nearly 6% last quarter, in a strong balance sheet. We understand the needs and challenges of our customers. We continue to work closely with the NPSE. This gives us the confidence, that we can grow the utilities in a manner that provides an attractive return to our shareholders. While at the same time, being aware of the financial pressures of our customers. To do this, we need to manage significant capital investment at Detroit Edison and MichCon. Much of the growth of the utilities, is being driven by environmental mandates and renewable energy standards, which are required by federal and state regulations.

At the same time, we face these significant capital requirements, we need to focus on the needs of our customers, by insuring the lowest possible rates, and providing the highest level of customer service. To do this, we are leveraging our continuous improvement capabilities, to reduce both our O&M costs, as well as our capital expenditures, to ensure we minimize the overall rate impact on customers. And at the same time, improving our operational performance and customer service. When you combine the cost reduction efforts with constructive regulatory environment, we are confident that the two utilities will be able to earn their authorized return of 11%, and grow 5% to 6% over time.

At the beginning of the third quarter, we filed for a $51 million rate increase at MichCon, and later today, we will file a rate case for Detroit Edison. We're not able to talk about the Detroit Edison rate case on this call, before it's filed, but we will be preparing our standard investors summary document, which we'll 8K later on today, and of course, we'll discuss this in more detail at EEI next week. Our Non-Utility businesses continue to provide growth opportunities, as well as diversify our earnings. We're prepared to go into more detail on these businesses next week, also, including both near and long term outlooks.

Now, turning to page six. Our earnings for the third quarter came in at $0.96 per share, $0.05 above last year. The increase in earnings, is primarily the result of solid results of the Utilities, and another robust quarter at the Power Industrial group. Partially offsetting this, is the third quarter loss of Energy Trading, and higher costs at corporate and other. Given the results through the third quarter, and our forecast for the remainder of the year, we are tightening our 2010 guidance, to $3.50 to $3.70 per share, which results in a year-over-year increase per share growth, of 9% at midpoint. This is an improvement over the 7.6% growth we originally expected, in our original guidance of $3.55 per share.

The local economy continues to improve. Year-to-date load is up 2.3% on a temperature normal basis, and industrial load is up almost 15% year-to-date. And we see other indicators of the economy recovering. Finally, our balance sheet metrics are strong, and where we would like to them to be. Year-to-date we've generated $1.5 billion in cash from operations. And we're increasing our full-year guidance for cash flow. And Nick will take you through that in a few minutes.

On page seven is an update of our 2010 guidance. As you know, the original guidance was $3.55 per share at midpoint, and that's the left hand column. After a strong first quarter at Detroit Edison, Power and Industrial, and Energy Trading, we raised our guidance in April to a midpoint of $3.63. And that's the middle column on this page. As we come into the final quarter, we're refining our guidance to reflect the continued strong performance of the Utilities, Power and Industrial, and the Holding Company, which is helping to offset the performance at Energy Trading. While there's an earnings mix change, holding the bottom line is something we take very seriously. And we're driving to deliver earnings pretty close to the revised guidance that we provided in the spring.

Let me walk down this page by going down the right hand column. With solid performance at our utilities, we're raising the lower end of Detroit Edison's guidance range by $10 million, and we are narrowing and raising the guidance range for MichCon to $105 million to $110 million. In an effort to stay out of a rate case at Detroit Edison as long as possible, we captured a number of one-time cost savings opportunities, which flow through to both utilities. We continue to see long term growth at the Gas Storage and Pipelines business, and we'll cover that at EEI. But we expect the current year to come in near the lower end of current guidance, or $50 million.

On the second quarter call, we talked about potential upside earnings for the Power and Industrial business, if we were able to realize the full value of the steel industry fuels tax credit. We are now comfortable with that, and we are increasing and narrowing the P&I guidance to $85 million to $90 million. And earnings at Energy Trading, continue do be pressured by a market that has made it difficult for a business like ours to make money.

While there has been some volatility in the commodity stock markets, our Trading business typically makes money on relational value trading. Or put more simply, they look for seasonal and geographic spreads in gas and power prices. Recently those spreads have collapsed. This has made it difficult for the trading team to realize trading gross margins similar to historical averages. And in fact the third quarter gross margins were insufficient to cover a fixed cost of the business. As a result of these marketplace dynamics, we are lowering the guidance for Energy Trading, to $5 million to $15 million. While we are disappointed in Energy Trading results, the team there has done a very good job for us over many years, and we have full confidence in them. We aren't changing our risk profile, and believe this team will find a way to work through the current market environment. And again, we'll go into more detail about Trading next week.

Due to some favorable tax items, we expect corporate and other expenses will come in near $68 million for the year. So overall, we expect DTE Energy to deliver a 9% increase in operating earnings per share at midpoint, and that increase is higher than the 7.6% growth that we expected in our original guidance. And both of them are well above our 5% to 6% long term target.

Now, let me turn it over to Peter, who will take you through the third quarter results in more detail.

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

Thanks, Dave, and good morning to everyone.

We're going to start with slide nine, which is our standard slide for the quarter, the third quarter earnings results. For the quarter, DTE operating earnings per share were $0.96. As a reminder, there is a reconciliation to GAAP reported earnings, contained in the appendix of the presentation. Detroit Edison contributed $0.97, and MichCon, which typically incurs an operating loss in the quarter, came in at a loss of $0.04. The Non-Utility segment combined to earn $0.13. Breaking this down into the components, earning results for the third quarter were, Power and Industrial at $0.15, Gas Storage and Pipelines at $0.07, Unconventional Gas Production at a $0.02 loss, and Energy Trading at a $0.07 loss. Finally, Corporate and Other had a loss of $0.10 in the quarter.

Let's move on to slide ten, and a summary of quarter-to-quarter performance by segments. Overall operating earnings are up $13 million in the third quarter of 2010. Both of our utilities earnings were up in the quarter, and I'll be taking you through additional details at our two utilities in a few moments. The Non-Utility segments in total, were down slightly quarter-over-quarter. The primary movers in the quarter were, Power and Industrial projects, with a $17 million improvement, driven by a higher coke sales, and the steel industry fuels tax credit, offset by reduced earnings at Energy Trading, of $18 million. I'll take you through some details of the Energy Trading segment after I cover the Utilities. Finally, our Corporate and Other segment was unfavorable, driven by 2009 one-time tax benefits.

Now, I'd like to go through some quarterly details, beginning with our Utilities and Detroit Edison, on slide 11. Operating earnings for Detroit Edison were $165 million, up $16 million from the prior year. Total margin for the quarter was up $24 million, due to a colder than normal 2009, and weather normalized revenue treatment in 2010. The revenue decoupler Edison received in its rate order this year, captures any weather related usage changes.

We did see a small pick up in weather margin, related to summer rates, higher than average rates in the decoupler, but this pick up was offset by incremental margin loss to the customer choice, that was not captured by our choice tracker. Additionally, O&M expense was lower, as a result of one time cost actions, continuous improvement initiatives, and lower uncollectible expense. Edison experienced some quarter-over-quarter unfavorability, driven by the 2009 third quarter property tax settlement, which benefits 2009 results.

Moving on to page 12, I will review MichCon's performance. As I mentioned earlier, the third quarter is typically a loss, in our seasonal Gas Utility business. MichCon had an operating loss of $6 million, up $17 million from the prior year, primarily due to margin improvement and lower depreciation. The improvement were driven by the June 2010 rate order, lost gas expense, and reduced appreciation rates, partially offset by lower midstream revenues.

Let's move to page 13, to review the Energy Trading segment. This is a standard slide that we do provide that does look at the accounting earnings versus the economic earnings, and want to take you little bit through the detail here. On a year-to-date basis for 2010, operating earnings for Energy Trading were 0, and the economic net income was 23. The 2009 year-to-date comparable time period was $73 million of operating earnings, and $64 million of economic net income.

Energy Trading had a strong year in 2009, with operating earnings that were higher than the $55 million average operating earnings for the three proceeding years. Now, the decreased level of year-to-date earnings in 2010, was driven heavily by the year-over-year decline in Trading-related opportunities, which Dave mentioned earlier. This is due in large part, to an over-supplied gas market, significantly lower volatility and liquidity, regulatory changes, along with uncertainty associated with the new financial reform legislation.

Another factor impacting this year's results, has been accounting recognition timing. Of the $23 million of timing effects and our year-to-date 2010 operating earnings, we anticipate approximately $10 million will roll into the income statement in the fourth quarter. Given the challenges in the marketplace, Dave and I have described, we are lowering our expected performance on the segment, to a range of $5 million to $15 million. That concludes an undate on the earnings for the quarter.

I will now turn the discussion over to Nick Khouri, who will cover cash flow and capital expenditures.

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

Thanks, Peter and good morning.

As always, improved cash flow and balance sheet strength remains a key priority for Management and Board of Directors. Through the first three quarters of this year, DT Energy's cash and balance sheet metrics are on tract, in fact, nearly equal to the historically strong year we saw in 2009.

Page 15 summarizes our balance sheet metrics. We expect to end this year within our targeted leverage and cash flow ranges. In addition, we are nearly finished with our 2010 funding requirements. We have contributed $200 million to our pension plan, through a combination of cash and DTE equity, refinanced outstanding utility debt at all time record low interest rates, and renewed a nearly $2 billion credit facility, at costs approaching pre-crisis levels. Both Fitch and S&P have improved DTE's credit outlook so far this year, with Fitch moving from negative to stable, and S&P improving from stable to positive, in the first half of the year.

Page 16 provides an overview of DTE's year-to-date cash flow this year, versus the same period last year. Pre-cash flow reached a solid $600 million through September. Even with higher capital spending, net cash flow after dividends, was a strong $300 million, enough to shore up DTE's balance sheet and liquidities.

Page 17 shows our revised guidance for 2010 cash and capital. Cash from operations is expected to be up about $100 million from our original guidance, driven mainly by weather at Detroit Edison, while capital is expected to end the year slightly below prior guidance. What's important, is that net cash after dividends, is expected to move from a negative in our original gains, to a positive in our current estimate.

Capital spending for the full year is shown on the right side of page 17. DTE capital spending will total $1.25 billion, down from the original projection of $1.4 billion, but over a 15% increase from 2009 actuals. Detroit Edison's operational capital is being revised up slightly, while the timing of renewable spending has shifted, from 2010 to 2011 and 2012. The re-timing of renewable capital does not change the total projected multi-year spending outlook.

Finally, the forecast for capital in our Non-Utility businesses, is being reduced from $300 million to $200 million. Capital spending in these businesses is dependant on the timing of projects, and varies from year-to-year. In summary, DTE's cash and balance sheet targets are on track, with year-to-date actuals nearing the historically strong year we saw in 2009, allowing us to increase our cash guidance for all of 2010.

Now, let me turn it back to Dave for a wrap up.

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

Thanks, Nick.

Let me wrap up on slide 19. The third quarter was another solid quarter at the Utilities and the Power and Industrial group. And when you combine that, with the challenges we're seeing at Energy Trading, we are confident in tightening our 2010 guidance.

Nick just took you through the cash flows, which are very strong. And we're able to maintain a solid balance sheet, and increase our cash flow guidance for the year.

In summary, we remain committed to our financial goals, and believe our plans will deliver the results necessary to provide an attractive total shareholder return, through a combination of 5% to 6% long term earnings growth, and an attractive dividend. Next week, we'll be able to provide an early outlook for 2011, by business segment. And with that, we'd be happy to take your questions, now.

QUESTIONS AND ANSWERS

Operator

Thank you. And our first question today, will come from Dan Eggers with Credit Suisse.

Kevin Flaherty - *Credit Suisse - Analyst*

Hi. Good morning, guys. This is actually Kevin.

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

Hi, Kevin.

Kevin Flaherty - *Credit Suisse - Analyst*

With trading, you guys did a good job, actually at last quarter, with the slide 14 segment [inaudible] between timing and the economic performance. Can you help me think about the year-to-date performers, between timing, versus actual losses? And then how you get to the $10 million gain in 4Q?

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

Yes. Let me start, and then I'll have Peter help. The quarters, as you know, have been different. You know, we had a very strong quarter in the first quarter, where the team almost made the entire year profit goal in the first quarter. The second quarter was different, where we had some positions that the market shifted against us, and we had to step out of the market at that point in time. The third quarter and fourth quarter, we're seeing different dynamics, where the market's just not providing the opportunity to generate margin, sufficient enough to offset fixed costs.

Now we still have roll-on coming back in. So we have transactions, as you know, where we book day 1 reserves. And those reserves get amortized over the life of the transaction. So when we look at the fourth quarter, the way I think about it, is you have roll-on of about $10 million. We also know that they have quarterly O&M that the team has to cover. And then, we look at what they see in the marketplace, in terms of their ability to generate margin, that would, with that roll-on, cover the fixed cost, and basically get you to a profit in the fourth quarter.

Peter, do you have anything to add?

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

More of the nature of these timing transactions. A lot of them are originations; these full requirement service contracts from an accounting perspective, we need to take day one reserves, than actually then we bleed in those reserves, when the transaction actually commences. A lot of this will become -- starting in the fourth quarter. So, this is really a set program to get the day one reserves back in. So we're pretty comfortable with the $10 million roll-on in the fourth quarter.

Kevin Flaherty - *Credit Suisse - Analyst*

Okay. Then not to pin you into any sort of like 2011 guidance, but are you still seeing the business as a $45 to $55 million a year project segment?

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

We'll talk about that at EEI. I think over time that's our objective. As you know this has never been part of our growth objectives. We liked it at the size it was, was $40 million to $50 million. The question really -- the open question would be a combination of the team working hard, and the environment that they're working in, and how soon does the environment change, that will provide more opportunities for them to generate gross margin.

So, part of the answer to that question is, it's slightly out of our control. The question is, what does the market provide them? But that doesn't mean the team isn't working hard in the meantime. You know, we trade in -- there's three areas, basically, that we've described, asset optimization market, marketing and origination, and then proprietary trading. They are seeing opportunities in that second group, the marketing and origination business. So, you know, as I said, they're working hard, and our long term goal is still in the $40 million to $50 million range.

Kevin Flaherty - *Credit Suisse - Analyst*

Okay. That's helpful. Then on the steel tax credit. What's it looking like for 2011? Do you see the bill getting past Congress, get the tax extended?

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

We believe so. But it's difficult to call some of these items.

There's two extender bills -- the way to think about it. There's the large Bush tax reduction extender bill, and then there's a smaller extender bill, that is Senate Bill 3793, and it was introduced by Senator Baucus. That bill's a smaller bill. It also includes the R&D tax credit. We believe there's broad support, and we're pretty optimistic that this gets passed in lame duck legislation. But it's something that we'll all have to watch.

Kevin Flaherty - *Credit Suisse - Analyst*

Okay. And you're expecting that to fall out around $0.18 for 2010, the benefit?

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

It's $30 million of net income. And if it gets extended, it would be slightly less for next year.

Kevin Flaherty - *Credit Suisse - Analyst*

All right, then one last question. When you file the Detroit Edison rate case later today, do you have to re-file for choice, or is that in a different proceeding?

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

No. It's part of the filing that we'll make today.

Kevin Flaherty - *Credit Suisse - Analyst*

Okay. Thanks, guys. Have a good day.

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

Okay.

Operator

And we do have a question from Ashar Khan with Visium Asset Management.

Ashar Khan - *Visium Asset Management - Analyst*

Good morning.

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

Good morning.

Ashar Khan - *Visium Asset Management - Analyst*

So, you still are expecting a 5% growth rate? And just wanted to hear, when should we expect the eleventh -- guidance for 2011?

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

Next week. We will be at EEI with Gerry Anderson, and it is part of our presentation that we'll make next week.

Ashar Khan - *Visium Asset Management - Analyst*

Okay. But the long term growth rate is still intact as you see it?

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

Yes. Over time, the Utilities, as an example, we have substantial capital investments that we're going to have to make. With the Utilities being two-thirds of the business, we have more than enough capital investment to make, that will actually drive that growth. Our challenge is actually a little bit of the opposite. We're trying to trim back some of that capital, to be really cognizant of the impact on our customers. And then we also see a lot of interesting opportunities in the non-regulated businesses. And Gerry Anderson will also give a multiple year view of that next week.

Ashar Khan - *Visium Asset Management - Analyst*

Okay. Then could you just remind us -- there was a change as part of this legislation last year, in terms of -- what are the new laws, if there's any M&A activity in the state. You have to get approval from the commission? What is the -- I believe there was a change in law as part of the legislation. Could you remind us what is the procedure, if there is any M&A activity? Do you have to get approval from the commission, or what happens?

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

The law that was passed in 2008, that provided the new regulatory environment that we're working in, in renewable energy, and other factors, also provided for the commission to be able to review and approve an acquisition of a Michigan company.

Ashar Khan - *Visium Asset Management - Analyst*

Okay. And there is a timeframe for that, or is it like -- were any standards set up, or any timeframes set up, or no?

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

I'll let Don talk to that. The reason I don't know the answer, is I view this as a pretty remote activity, so -- Don, do you want to comment on that?

Don - *DTE Energy Company - Unidentified Company Representative*

Yes. As I recall, the main time constraint, is the Commission has 90 days to rule on it. I believe it's 90 days. It could be 180 days, but there's a relatively short time frame, that once you file an application, the Commission has changed the rule on it.

Ashar Khan - *Visium Asset Management - Analyst*

So it's 90 days. And is there any standards that were set up in the law, or no?

Don - *DTE Energy Company - Unidentified Company Representative*

There's some criteria that the Commission has worked on, in terms of how the process would work, but since nobody's done it, it's unclear how it would work, but we'll see how it works, if somebody files one of these applications.

Ashar Khan - *Visium Asset Management - Analyst*

Okay. Thank you.

Operator

At this time there are no further questions. I'll turn the conference over to Mr. Meador for any additional or closing comments.

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

Well, thank you for joining us this morning. And I appreciate you joining us for the call. And we look forward to meeting many of you next week at EEI. As I mentioned, we'll provide additional insights on 2011, including more details on the upcoming Detroit Edison filing that we'll make later today, and then some longer term outlooks on both our Utility and Non-Utility businesses. And as a reminder, Gerry Anderson and I, will be presenting Tuesday morning at 8.15, Pacific daylight time, so thanks for joining us and have a good day.

Operator

This does conclude today's conference call. Thank you for your participation, and have a nice day.