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DTE - Q3 2014 DTE Energy Co Earnings Call

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**Andrew Weisel** *Macquarie Capital Securities - Analyst*

**Dan Eggers** *Credit Suisse - Analyst*

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## PRESENTATION

**Operator**

Good day, and welcome to the DTE Energy-hosted Third Quarter 2014 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, ma'am.

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

Thank you, Kyle. Good morning everyone, and thank you for joining us today for our third quarter 2014 earnings call. Before we get started, I'd like to remind you to read the Safe Harbor statement on Page 2, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please reference and refer to the reconciliation of GAAP net 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 Sewell, 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.

For this earnings call, we will be focusing on the quarter and impacts to 2014 during the presentation and the Q&A. Gerry Anderson will be presenting at the EEI conference in a couple of weeks, where he will be providing a more detailed business update, including our future growth plans. With that, I will turn it over to Peter for the update.

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

Thanks, Anastasia. Good morning everyone, and thank you for joining us today. Here in Detroit we have officially lowered the Tiger flags and raised the Red Wing flags. There's a debate going on at DTE whether I jinxed the Tigers on the last earnings call by indicating I would be giving a World Series update on the call. I claim I didn't since they won the division. Others say I did since they were swept in the first round of the playoffs. Either way, I vowed not to make any more predictions on this call.

In a few minutes I'd like to turn the call over to Jeff and Mark, who will take you through earnings and cash flow for the quarter and year to date. Before that, I'll be providing a brief business update. Moving to Slide 5, this is an overview of our business strategy and investment thesis.

Our growth plans for the next 10 years at both utilities are robust. Our electric utilities growth is driven by environmental spend in the near term, and renewal of our generation fleet in the longer term, which is a replacement of our aging coal fleet. There's more certainty now on the coal retirements given the recent EPA actions. Our gas utility growth is driven by infrastructure investments and main replacement.

Complementing our utility growth are meaningful, low-risk growth opportunities in our non-utility businesses, which provide diversity in earnings and geography. As Anastasia mentioned, we will be providing detail on our overall growth plans at EEI. Our two utilities are deploying capital in a very constructive regulatory environment, and we work hard to earn this every day. Our effort begins with a highly engaged work force and ongoing focus on continuous improvement. This enables us to continue our cost savings track record and our utilities' ability to consistently earn their authorized returns.

We also continue to focus on operational excellence and customer satisfaction that we believe are distinctive in our industry. Just last month we were ranked number one in the latest J.D. Power Gas Residential Customers Study against like peers. Our dividend payout continues to grow in line with earnings, and we target a strong DDD credit rating. Our strategy provides for consistent 5% to 6% annual EPS growth, an attractive and increasing dividend, and a strong balance sheet.

On the next page, you see a short list of key activities and projects that are in motion. First starting with DTE Electric. We recently filed a proposal for new costs of service relates related to the new PA-169 state legislation, which was passed earlier this year. If you recall, this legislation came out of a cross-functional work group chartered by the governor to look at large industrial customer rate design. Our proposal is to implement these new rates in the second quarter of next year.

Sticking with Electric Utility, as previously disclosed, we issued an RFP for natural gas generation capacity earlier this summer. The process is proceeding very well. The RFP time line is close to coming to a conclusion, and is designed for a closing in 2015, and capacity available for the 2015-2016 planning year.

As far as finalizing our decision, we expect to make a determination in the next few weeks. This RFP is an early step in our goal of securing capacity for our full-service customers in a tightening region of the MISO market.

Next, I have a few updates I want to provide regarding projects in our gas storage and pipeline segment. In the quarter, the Vector pipeline issued an open season to assess shippers' interest in the capacity expansion of the pipeline. This binding open season ends November 4, and we can provide more of an update on the results after its conclusion. We have mentioned in many of our prior updates that our Vector pipeline is well situated to provide a path to Ontario, Michigan, and Chicago markets for the emerging shale gas in the region that needs to head north and west.

The project we are most excited about is our NEXUS pipeline. Since our last earnings call, the binding open season concluded, and the pipe is now sized at 1.5 BCF a day, expandable to 2. We are finalizing producer agreements and doing early preparatory activities. We're on track for the FERC pre-filing in the end-of-the-year time frame. We expect to give you another update on all these projects at our upcoming EEI in November.

Slide 7 talks about the Michigan economy. We get a lot of questions when we're on the road about the growing Michigan economy, so here on slide 7 you can see some real indicators on this continued economic expansion, which is based on strong fundamentals.

On the left hand side of the page, you can see that Site Selection magazine now ranks Michigan as the sixth most competitive state for business location, up from 16th in 2011. On the right hand side of the page some more indicators of a strengthening economy, as Michigan currently leads the nation in manufacturing job growth. Similarly the American Economic Development Institute named Michigan the most improved pro-business state, so we continue to see positive momentum on the economic front.

If you turn to Slide 8, this is our earnings and dividend growth slide we shared with you in the past. We remain confident that our growth plans will deliver a 5% to 6% EPS growth target. In fact, we are tightening our EPS 2014 operating EPS guidance to our range of $4.28 to $4.42, which raises guidance mid-point $0.05 to $4.35 per share.

The increase in guidance mid-point is primarily driven by increased weather revenue at our gas utility, and increased earnings at our power and industrial projects segment. Jeff will take you through shortly the details of the guidance change. As you can see on the chart on this page, with the growth contemplated in our utilities and non-utilities over the next five years, we're approaching $1 billion of income. I'll now hand the call over to Jeff, who will walk you through the details in the earnings for the quarter and impacts to the full year.

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

Thanks Peter, and good morning, everyone. I will start on Slide 10 and discuss our quarter-over-quarter earnings performance by segment. For the quarter, DTE Energy's operating earnings are $1.02 per share. For a detailed breakdown of EPS by segment, please refer to the appendix Slide 21. I would also like to point out that there is reconciliation to GAAP-reported earnings in the appendix.

Now for our growth segments, operating earnings were down $26 million, or $0.16 per share for the quarter. DTE Electric was down $44 million quarter over quarter, driven by cooler weather and higher storm activity in 2014. This was partially offset by lean initiatives. These initiatives have been implemented to achieve one-time cost savings. DTE Gas's performance was in line with normal third-quarter activity, and financial results for the addition of targeted reinvestment activity.

The results quarter over quarter were $3 million lower. Gas storage and pipeline earnings were $4 million higher for the quarter over last year. This increase was driven by higher pipeline and gathering earnings, which were partially offset by the ongoing impact of the accounting change related to one of our pipeline investments.

Our Power and Industrial Project segment was up $11 million from 2013. This increase was driven by renewable-power-generating unit beginning commercial operations in 2014, and also increased reduced emissions fuel earnings. Our Corporate and Other segment came in $6 million favorable over last year, primarily due to tax-related timing differences. In total, results for the gross segment were $26 million lower quarter over quarter.

At Energy Trading, operating results for the quarter were $3 million, which is $9 million higher than last year, due to improved performance in the power portfolio. Year to date, Energy Trading has produced $1 million of operating earnings. Slide 23 and 24 of the appendix contain our standard Energy Trading reconciliation pages, which show both economic and accounting performance.

I'd like to now turn to Slide 11 and walk through some quarterly details for DTE Electric. The Electric segment was lower quarter over quarter by $44 million. The major contributors to this unfavorability were weather of $33 million, and $20 million related to storm expenses. Regarding the weather, the third quarter in 2014 saw roughly 30% fewer cooling-degree days than normal. In contrast, 2013 experienced normal weather.

In regards to the storm expenses, both 2013 and 2014 saw elevated storm activity versus normal. But the number and severity of storms in 2014 was even greater, including a September storm which was one of the largest in our history, affecting more than 400,000 customers. Offsetting the impact of the weather and storm are lean initiatives that began in the third quarter of 2014, compared to reinvest initiatives that were taking place in the same period last year.

Moving on to Slide 12, I'll discuss our 2014 revised guidance and key drivers. As Peter stated earlier, DTE Energy is increasing EPS guidance from a mid-point of $4.30 to $4.35 per share. The strong results at DTE Gas and our Power and Industrials business have more than offset the weather impacts at DTE Electric. Along with increasing the mid-point of guidance by $0.05, we are also narrowing the range as we head into the final quarter of the year. This revised guidance includes contingency, and may provide us flexibility to implement reinvestment strategies, depending on business results and conditions for the balance of the year.

We are revising DTE Electric's earnings guidance downward, but by only $15 million, despite facing enormous unfavorable pressure from both summer weather and increased storm activity. We've talked to you before about our flexible planning approach of creating three financial plans each year -- a base plan, a lean plan, and an invest plan. We are prepared to implement each as needed.

Implementing our lean plan has allowed the Company to mitigate a large portion of the earnings pressure, and minimize our downward earnings revision for the Electric segment. On a weather-normalized basis, electric sales are down approximately 1% through the first nine months of the year, due primarily to customers taking steps to conserve energy after the unusually cold winter. Long term however, we continue to expect load growth to be up 0.5% per year, which is in line with our Midwest peers.

For DTE Gas, we are revising guidance upward. This is mainly due to the significantly colder than normal winter that we experienced, but we are also holding some of the favorability back for firm life contingency or reinvestment opportunities. We are narrowing Gas Storage and Pipelines guidance. The primary drivers of this change are strong performance in the pipeline and gathering businesses, and one-time weather-driven favorability in the storage business.

This favorability is offset by the ongoing impact of the accounting change at one of our pipeline investments. As we mentioned on previous earnings calls, we began deferring revenue collected in FERC-approved rates in excess of depreciation expense. This deferral is entirely timing-related and will reverse, and therefore has no impact on the long-term growth prospects for the segment. So far this year we have deferred approximately $10 million of revenue after tax, and we will defer a like amount in 2015, and a much smaller amount in 2016, before the deferral begins to reverse.

For the power and industrial projects we are revising guidance upwards. The primary driver of the guidance increase is better performance at our reduced emission fuels business. That concludes my update on our earnings. I'd like to now turn the discussion over to Mark, who will cover cash flow and balance sheet metrics.

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**Mark Rolling** - *DTE Energy Company - VP & Treasurer*

Thanks Jeff, and good morning to everyone on the call. I'll open by saying that our cash flow and balance sheet remains strong, and continue to support our long-term growth plans. Beginning on Slide 14 with a look at our cash flows through the first three quarters of the year, September year-to-date cash from operations is $1.2 billion. Now this is down a little compared to 2013, but it's in line with our plan for the full year.

Compared to the same period last year, DTE Electric had lower surcharge collections and higher fuel and purchase-power costs. This was driven mostly by the colder weather we had earlier in the year. Similarly, DTE Gas had higher weather-related gas purchases.

Capital spending is up this year due to increased investments at the electric utility, partially offset by lower capital spending in our non-utility businesses, which is really just a timing of our gathering-related spend at GSP. We've included a more detailed break-down of year-over-year CapEx on Page 22 in the appendix. Overall, net cash is down year over year, which is consistent with our plan.

Moving now to Slide 15, which shows our revised cash and capital guidance for 2014, on the left side of the page cash from operations is still expected to come in at $1.6 billion, while capital spending will be about $100 million lower than the original guidance, resulting in $100-million improvement to free cash flow and net cash. We're taking advantage of the low interest rate environment by refinancing more long-term debt than we originally planned.

On the right side of the page you can see the break-out of capital spending by business unit. Our projection for total CapEx is almost $2.2 billion. That's down a little from our original guidance, but it's up nearly 15% from last year. We still expect to spend $1.6 billion in electric, with a small change to the mix. Our non-utility investments will be about $160 million lower than planned. Now as you know, the capital spending in the non-utility businesses is driven by the timing of projects, and it can be lumpy from year to year. That's the case here today.

Let me wrap up on Slide 16 with a look at our balance-sheet metrics. We expect to end the year within the targeted range for both leverage and FFO to debt, and we're nearly complete with our 2014 funding requirements, with no plans to issue equity this year. We have a healthy $1.2 billion of liquidity at the end of September. Lastly, we refinanced over $1 billion in long-term debt at very attractive rates, which will give us almost $25 million in annualized interest savings. Now I'll hand the discussion back over to Peter to wrap up.

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

Thanks, Mark. I'd like to move us to Slide 18 for a wrap-up of the quarter. The quarter was impacted by a pretty unusual combination of cool summer weather and increased storms, which were partially offset by strong performance in our non-utility businesses. We are confident in the remainder of the year, as we are raising and narrowing our 2014 EPS guidance. Our balance sheet and cash flow metrics remain strong, and we are reiterating our commitment to the 5% to 6% earnings growth, and providing an attractive dividend.

As I mentioned, will be at EEI in a couple weeks. We hope to see many of you there. Gerry Anderson will be providing a detailed business update for each of our business segments. The presentation that Gerry will provide will begin at 11:15 Central Standard Time on Thursday, November 13. For those of you not going to EEI, you will be able to join that webcast through our Investor Relations website.

I'd like to thank you for listening to our call this morning. Now I'll be happy to take questions that you may have. As Anastasia mentioned, it's really a preference to focus on the quarter and the full year of 2014, saving the longer-term strategic dialogue for the November EEI meetings. With that, Kyle, we'll be open for the Q&A.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Matt Tucker, KeyBanc Capital Markets

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**Matt Tucker** - *KeyBanc Capital Markets - Analyst*

Hi. Good morning, and nice work in a tough quarter.

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

Good morning, Matt.

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**Matt Tucker** - *KeyBanc Capital Markets - Analyst*

First question on NEXUS. Can you talk about the partnership structure there, and what remains to be done before pre-filing, and if you could give us any more color on the timing of that between now and year end?

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

Yes. NEXUS -- as you know, we're very excited about the project. Since our last earnings call we completed a really key milestone with the binding open season.

The pipe right now is sized at the 1.5 BCF per day. Originally went into the open season thinking it might be at 1-BCF pipe. We do have enough commitments from the producers and end-use customers to move forward with that project.

Work that's being done right now, we have some right-away activity of the project that's in full-motion. We also have environmental land studies going on. Our target is to make a FERC filing in the end-of-the-year time frame.

On the ownership issue, we are still in discussions with Enbridge. That's really the remaining area or swing factor in terms of our ownership levels. I would anticipate that these conversations will probably go forward, maybe into the end-of-the-year time frame. Either way, we like Enbridge to be in the pipe. It does make sense from a long-term strategic standpoint to have Enbridge in. If not, we'll have a larger ownership of a early-grade project. I'd say really more than the end-of-year timeframe to finalize ownership levels.

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**Matt Tucker** - *KeyBanc Capital Markets - Analyst*

Thanks. Is there any more color you can give us on the nature of those discussions with Enbridge? From the outside, it's a little bit difficult to understand why they wouldn't potentially want to join the partnership, as well as why you wouldn't prefer just to take a larger stake in the project?

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

For them, they are mainly an oil-based company -- the oil pipelines, and it really is around a capital allocation and resource allocation decision for them. I'm anticipating at the end they will be in this project. It's a great project. They obviously feel so as well, but even the end-use coming from them as well, in terms of some of the LDC support. It really is around the capital allocation decision. I think at the end of day they'll be part of the project.

We like them just from a strategic perspective to have their ownership interest in there, as well as LDC support definitely helps the longer-term on the overall liability and success of the pipe.

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**Matt Tucker** - *KeyBanc Capital Markets - Analyst*

Great, thanks. On the Vector proposed expansion, any more details you can give us there on the potential CapEx, or how much uplift that could create relative to the current earnings stream from Vector?

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

Yes, Matt. I think it's a great question.

To take a step back on Vector, we've indicated in recent years that we felt Vector was really well situated with the emerging shale gas in the region, especially the Utica Shale. We have on the list in some of our disclosures around potential pipeline projects, we had a Vector expansion, and we have that labeled as a TBD.

This open season was prompted by the number of proposed projects in the area. Vector really is now putting out an open season to see what's the level of that interest? What potentially could be the size of expansion, if there is going to be one. This would be a fourth-quarter 2017 in service if there was an expansion.

Through this open season, Vector's going to understand the total demand from the new projects, as well as understand the demand from existing shippers beyond the 2017 time frame. It is a bit early right now to really indicate what the potential expansion could be, if there is going to be one. I can say that this is definitely a very positive sign, and a first step in the process around Vector.

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**Matt Tucker** - *KeyBanc Capital Markets - Analyst*

All right, great. Thanks a lot, Peter.

**Operator**

Andrew Weisel, Macquarie Capital

**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

My first question is a question on customer rates. You filed the new cost of service, but can you walk us through maybe a little more detail on the numbers of what the changes by customer class look like for that, for the surcharge reductions, then with the upcoming general rate case, how that all nets out over the next 12 months?

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

For the customer rates, that's the PA-169. We did make the filing there, we have indicated. It really was driven -- as you know there was a work group put together looking at large industrial customers, especially those energy-intensive customers. Those customers will experience an average rate deduction around 8%. The higher use will be probably more maybe north of 10%.

There will be reductions, as well, for some of the larger commercial customers. It is a rate neutral, so there will be some balancing across the remaining customer classes. We do have head room. As you indicated, this year we had surcharge reductions coming off. A big one Stephen called out was our renewable program, the surcharge related to that. That was close to $100 million all in. The surcharge reductions this year was about a 6% head room. Next year we have our nuclear bond payment related to FERME that's going to be around a 6%, as well.

We have enough that we do have a filing coming up around our rate case for electric. It's been a four-year stay out. This really is a capital-driven, rate-base-driven case. It's too early to really call what the size of that case will be, but we will have head room between these surcharge reductions, as well as our nuclear bond payment to more than cover that case.

**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

You said more than cover. Okay, terrific.

Next, two quick ones on financing. Equity needs -- you mentioned nothing this year, but there was -- you didn't mention in the slides what will happen for next year and the year after. Should we still think about that as $200 million to $300 million per year, or how much will that depend on the pipeline CapEx needs?

**Mark Rolling** - *DTE Energy Company - VP & Treasurer*

This is Mark.

We previously said we would be doing $200 million to $300 million per year in 2015 and 2016. When we go to EEI we're going to provide a refreshed outlook that will take you out through 2017. The equity plans that we do won't be dramatically different that what we've talked about. We'll contemplate all the capital growth that is in our plan.

**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

Okay, great. Lastly, the refinancing of debt continues to come in, up to a $1 billion now long-term debt refinance. Is there much opportunity for more, or should we think of that as in this rate environment?

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

Well, we've refinanced everything that came due, and there was some callable debt that we pulled forward to take advantage of the rates. We may have a little more yet this year, but you've probably seen the lion's share of us refinancing long-term debt here over the last two years, in fact.

**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

Very good. Thanks a lot, guys.

**Operator**

Dan Eggers, Credit Suisse

**Dan Eggers** - *Credit Suisse - Analyst*

Good morning, guys. I'm not going to try and go too far into the future, but I'm going to do it anyway.

Yesterday your other Michigan peer was talking about some of the opportunities that could come if customer choice goes away as far as load coming back on their system, as well as starting to address the stored MISO Zone 7 capacity situation. Can you just talk about how you guys are assessing that opportunity, and when we could prospectively hear thoughts on places where you might start filling in generation capacity?

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

That's a really good question.

Probably be first start just talking about the MISO short. The MISO short for 2016-2017 is now estimated at 3 gigawatt hours. That's been a pretty recent disclosure from them. That was up from 2 gigawatt hours, which was the previous level.

We have -- we mentioned on the call here we have this current RFP for electric capacity. This really is intended to secure capacity for our full-service customers in this tightening region of MISO. We have a natural summer short. This capacity will tighten, so as we're looking and seeing this tightening market, we felt that really is prudent to cover that short, really to help secure capacity, as well as more price certainty for our customers.

We are developing plans to address our full-service customers' overall capacity needs in this 2016-2017 time frame. This emerging capacity shortfall in part is really a reflection of the flawed retail access program here in Michigan. I would say it's probably really attributed to the lack of capacity planning from the choice providers. They were really taking advantage of the long market to date.

I know a lot of your question is around if this choice returns, what is the implication for us. If choice does return, and we do believe that choice will be addressed up here coming in legislation, and there is a possibility of choice returning to us, we will have plans to serve them. That could mean additional capital, most likely not immediate, but longer term for us.

**Dan Eggers** - *Credit Suisse - Analyst*

I guess when you guys have laid out on the pipeline side the box of future earnings contribution, is this Vector project going through open season -- is that part of that box, or does that stack on top of the classic box sled?

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

We have indicated, if you go back to even some of our prior disclosures, we did have there a Vector expansion as a TBD. As we are contemplating NEXUS and sizing up NEXUS there was a Vector expansion contemplated, as well. But really, what --

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**Dan Eggers** - *Credit Suisse - Analyst*

Okay, so that classic white box in the last presentation had NEXUS.

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

A portion of that, but it will be interesting what the number of projects in the area, as well as understanding existing shippers -- what their interest is beyond the 2017 time frame. There is a placeholder right now, but that could vary depending what happens on this open season.

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**Dan Eggers** - *Credit Suisse - Analyst*

I'll just -- maybe I'm -- being simple about this. There is that $20 million of that box has some combination of a bunch of different projects that you probability weight in there. If you had NEXUS and Vector both get done, would that be bigger than the $20 million box, effectively? Is that the right way to think about it?

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

Well, I guess punt until mid-November at the EEI, but some of that will be -- we will be going over in more detail, and Gerry will, obviously in a few weeks, around how we're thinking around our gas stores and pipeline segment overall, what do we think about future earnings, how do we feel about that white space.

NEXUS -- that was sized as a 1-B pipe with one-third ownership. That's coming in at a 1.5-B pipe with ownership as a TBD right now. There is possibility for larger capital and earnings from NEXUS depending on where we end up with the ownership levels there. There is -- there was a contemplation of a Vector expansion, so we'll see. If coming out of this open season could it be larger potentially, could it be smaller? That may be a possibility, as well. But more likely there will be an expansion. Then we'll try the one -- we won't have completely nailed down for the EEI. It ends on November 4. That will take some time to for us really assess what we think that is going to be.

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**Dan Eggers** - *Credit Suisse - Analyst*

Peter, should we expect that chart goes to 2019 at EEI?

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

Yes, we will update you through 2019.

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**Dan Eggers** - *Credit Suisse - Analyst*

Okay. Thank you, guys.

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**Operator**

Julien Dumoulin-Smith, UBS Financial

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**Julien Dumoulin-Smith** - *UBS - Analyst*

I will stick with this here for the time being. Firstly, with regards to the non-utility CapEx, could you talk a little bit about the shift you are showing there for 2014?

Separately at the same time, could you talk a little bit about what the lean initiative means in terms of EPS shift versus call it your base case? Specifically, I know it's a little out of bounds, but how does that impact next year, as you think about having to reinvest?

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

I'll handle the non-utility question and I will turn it over to Jeff Jewell to talk about the lean implications of that. For the non-utility it is timing. It's a combination of there is some gathering investment. We're doing the gathering right now for Southwestern Energy. That really is timing in between years, so that's what that is.

A portion of it is also our Power Industrial segment. We've indicated there's opportunistic investments there that are lumpy in nature. There is no implications on our longer-term growth plans. It is timing for that.

Jeff, do you want to handle the lean?

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

Yes, I sure can. Hi Julien, this is Jeff. Your question around the lean is what does that mean for this year related to EPS, is that sort of out to size that?

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**Julien Dumoulin-Smith** - *UBS - Analyst*

Yes, versus -- call it your base case. Also, to what extent that impacts next year as you think about having to reinvest after having spent a lean year here?

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

Let me answer the second one first. The way we start each year, as we've talked about, we have the three plans. Each one of those plans is sort of one-time based off of that year. When we talk about lean or reinvest, we're doing those as sort of one-time events. When you think about next year, we're not anticipating there being an impact by doing lean or reinvest this year and then having an impact on the next year. That's how we manage our business.

Then you talk about the sizing for this year. As you saw on the slide, we spent at the electric company about $7 million of lean. We're looking at it about $10 million to $15 million after tax, is what we're looking at for the fourth quarter. That's roughly a little less than $0.10 a share for the balance of the year, is what we're looking at there.

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**Julien Dumoulin-Smith** - *UBS - Analyst*

Excellent, thank you. Then a clarification from Dan's last question there on the situation with MISO. As you think about the RFP that's pending, just curious. Is there an acquisition opportunity here that stands as well as, I suppose, Southfield? Could you clarify what's on the table, and also to what extent would the state prefer to see new build rather than an acquisition from you all?

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

The RFP is an acquisition. We believe there are a few merchant plants in the state of Michigan. We believe we can secure them at a price that's good for our customers, and most likely will be less than a new build on that. The near term, our solution for our full-service customers is an acquisition.

The longer term is, if we do have a shortfall here in the MISO, especially Zone 7, what is the pace and timing of new capital to cover that? We will be obviously spending capital, we've indicated that with the coal plant retirements. But that's more of a TBD at this point in time. A lot of that is also for us personally at DTE, is what happens with choice.

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**Julien Dumoulin-Smith** - *UBS - Analyst*

Got you.

What's the time line, then, in terms of thinking about next steps on resource adequacy, if you could rehash that?

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

We are -- the RFP that we have in motion right now will close in 2015 for the 2015-2016 time frame.

For the 2016 time frame, we are in plans right now developing plans for our full customers. Our actual filing around that is early in 2016. But obviously we're getting ahead of that in understanding the implications for our bundle of full-service customers.

We're also monitoring the overall market, and then trying to think through what happens if choice does return. We are really in the early stages of thinking about that as a Company.

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**Julien Dumoulin-Smith** - *UBS - Analyst*

Great. Thank you.

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**Operator**

(Operator Instructions)

Jonathan Arnold, Deutsche Bank

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**Jonathan Arnold** - *Deutsche Bank - Analyst*

Good morning, guys.

I'm just curious on Power and Industrial, the performance in the quarter. You attributed it -- and I think the guidance raise, primarily -- to reduced emission fuels out-performing the plan. Is that something that happened this quarter that likely won't recur, or is that business moving to a higher base?

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

We are seeing strong performance in income from our reduced-emissions fuel projects. A good portion of this is tied to additional volume that is non-repeating, related to some plant capacity factors and availability factors. I would say really most of it will be non-repeating. We are anticipating growth from the segment overall for next year, and we will be providing a fuller update on this segment at next month's EEI conference.

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**Jonathan Arnold** - *Deutsche Bank - Analyst*

What we got this quarter, and what we're getting this year, is this year's Cap factor?

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

It would be this year's. We will provide an update on 2015 at the EEI conference.

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**Jonathan Arnold** - *Deutsche Bank - Analyst*

Great. All my other stuff was answered. Thank you, guys.

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

Thanks, Jonathan.

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**Operator**

Paul Patterson, Glenrock Associates.

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**Paul Patterson** - *Glenrock Associates - Analyst*

That was pretty much my question, too, but just to follow up on it, if we think of a normalized number just to clarify, it would basically be what your prior guidance was?

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

Yes, that would be a fair assumption.

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**Paul Patterson** - *Glenrock Associates - Analyst*

Okay. Then on the trading, the net fair value seems to have been pretty good, not only in the quarter but year to date. I'm just wondering has there been any change there, or anything you'd want to discuss in terms of how you see the trading basis performing going forward?

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

No, the trading is -- and as you've indicated, they're having a really good year. We have indicated we target, or at least anticipate, $20 million to $25 million of economic contribution per year from our trading Company. This economic value will be coming over time into our accounting earnings. There is some noise and variability when it flows in. When it does flow in, it is as we've indicated, over and above our 5% to 6% growth objectives.

In the appendix page, you will see they are at a $36 million year to date, so they are having strong performance. But that doesn't change our longer-term -- basically expectations of the $20 million to $25 million.

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**Paul Patterson** - *Glenrock Associates - Analyst*

Excellent. Thanks a lot.

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**Operator**

We have no further questions in queue at this time. I would now like to turn the conference back over to our moderator for any additional or closing remarks.

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

I'd like to thank everybody for joining us today, and hopefully we will see many of you next month in Dallas at the EEI conference. Have a great day.

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**Operator**

This does conclude today's conference call. Thank you all for your participation. You may now disconnect.

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