

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **DTE - Q3 2009 DTE Energy Company Earnings Conference Call**

**Event Date/Time: Oct. 30, 2009 / 1:00PM GMT**



Oct. 30, 2009 / 1:00PM, DTE - Q3 2009 DTE Energy Company Earnings Conference Call

## CORPORATE PARTICIPANTS

**David Meador**

*DTE Energy Company - CFO*

**Peter Oleksiak**

*DTE Energy Company - VP and Controller*

**Nick Khouri**

*DTE Energy Company - VP and Treasurer*

## PRESENTATION

**Operator**

Good day and welcome to the DTE Energy third quarter 2009 earnings conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference call over to David Meador. Please go ahead, sir.

---

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

Thank you. And good morning and welcome to our third quarter conference call. As we get started, I encourage to you read the Safe Harbor on page two, including the reference to forward-looking statements. We will be out at EEI on Sunday through Tuesday, with Tony Earley, so we'd like to focus this call on our third quarter. With me this morning are Peter Oleksiak, our Vice President and Controller; Nick Khouri, our Vice President and Treasurer; Lisa Muschong, our Director of Investor Relations. And I also have members of the management team with me that I might call on during the Q&A period.

Let me start the call on slide five. The third quarter came in right where we expected it to and supports the revised guidance that we just provided at our October 19 analyst meeting. The utilities are performing well in a weak economy and we do expect both utilities to return to their full earning power next year. The nonutility performance remains on track, with the trading Company having a great nine months and the power and industrial group expected to have a very strong fourth quarter. And the favorability at the holding Company is driven by one-time tax benefits and we covered that at the analyst meeting. The balance sheet remains strong with both year-to-date and forecasted 2009 cash flows, which shows significant improvements over 2008. Our metrics are right where we want them to be and we have \$1.7 billion in available liquidity.

On slide six is a comparison of the year-to-date results of \$427 million, or \$2.61 a share, compared to the revised guidance of \$523 million to \$558 million, which we provided at the analyst meeting. The year-to-date results came in as expected, and when coupled with our fourth quarter forecast, support the guidance of \$3.20 to \$3.40 per share for the year. Now, with that background, let me turn it over to Peter who will take you through the quarter.

---

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

Thanks, Dave. And good morning to, everyone. Let's start with slide eight and the third quarter earnings per share by segment. For the quarter, DTE's operating earnings per share was \$0.95. As a reminder, there's a reconciliation to GAAP reported earning contained in the appendix to the presentation. Detroit Edison contributed \$0.95 and MichCon, which typically incurs an operating loss in the third quarter, came in at a loss of \$0.14. The nonutility segments combined to earn \$0.15 on the quarter. The individual segment results within the nonutility businesses are; Gas midstream at \$0.08; Power and industrial at \$0.04; Energy trading contributing \$0.04; and unconventional gas production at \$0.01 loss. Corporate and other also had a loss of \$0.01 in the quarter.

Let's move to slide nine and a summary of the quarter over quarter performance by segment. Overall, operating earning were down \$16 million for the third quarter of 2009. Detroit Edison earnings are essentially flat, while MichCon is down \$10 million



Oct. 30, 2009 / 1:00PM, DTE - Q3 2009 DTE Energy Company Earnings Conference Call

from the third quarter of last year. We'll go into more details on the two utilities in a few moments. Our nonutility segments are down \$31 million in total. Gas midstream is up \$2 million due to higher pipeline income. Lower gas prices in 2009 are driving a \$5 million increase in earning in the unconventional gas production segment. Power and industrial projects are down \$17 million, primarily due to lower coke production, as a result of the slow down in the steel sector. This segment also benefited from a holding Company true-up related to synfuel proceeds in 2008, which is causing a year over year variance.

Energy trading had a quarter over quarter earnings decline of \$11 million, primarily due to lower realized gains in 2009. Year-to-date economic net income at energy trading is comparable with last year and we actually included a page in the appendix of the presentation that shows that. And finally, our corporate and other segment is \$28 million favorable due to some one-time related tax benefits in 2009, as Dave mentioned, and a true-up, I just mentioned, with the power and industrial projects in 2008.

Now, I'd like to take you through some quarterly details of utility Companies, beginning with Detroit Edison on slide 10. Operating earning for Detroit Edison is \$156 million, down slightly from the prior year. Margin for the quarter is down \$47 million, before rate increases, driven by the significant drop in temperature normal sales and a cool summer. Additionally, O&M expense is up \$5 million due to higher employee benefit costs and the timing of power plant maintenance and restoration expense within the year. Partially offset by our continuous improvement initiatives. As I mentioned on the first and second quarter calls, the year over year O&M savings will be front end loaded, given the fact that we started these cost reduction efforts in the second half of last year. Rate increases overall contributed \$59 million quarter over quarter.

Turning to page 11. We have included quarter over quarter and year-to-date details on our temperature normal electrical sales. In the third quarter, we experienced a quarter over quarter sales drop of 7%, which was larger than our original projections for the year. This was driven mainly by reductions in industrial load, which we anticipate will improve in the fourth quarter. Actually, when you look at the third quarter of this year compared to the second quarter, we have actually experienced a 6% increase in industrial load. The year over year drop in our industrial load is now projected to be 22% versus the 15% embedded in our original guidance. Load reductions in the commercial and residential segments have now forecasted at negative 2% and negative 3% versus the negative 5% and 1% embedded in our original projections. In total, our current projection for the year is temperature normal sales drop of 7% to 8%.

Moving on to page 12 and a review of MichCon's performance. As I mentioned earlier, the third quarter is typically a loss in the seasonal gas utility business. MichCon had an operating loss of \$23 million, \$10 million unfavorable, compared to the prior year. This is primarily due to higher employee benefit costs, partially offset by our continuous improvement initiatives. Additionally, there is an increase in depreciation and interest in 2009 and a tax refund benefit in the third quarter of last year. This concludes my comments on the third quarter earnings results. Now, I'd like to turn the discussion easier to nobody Corey who will cover cash flow and capital expenditures.

---

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

Thanks, Peter. As always, improved cash flow and balance strength remains a key priority for management and the Board of Directors. This year, even in the face of a weak local economy, DTE's cash flow and balance sheet health improved significantly from 2008. Page 14 details cash flow and capital for the first three quarters of 2009. Cash from operations reached \$1.7 billion through October. While free cash flow, before dividends, was a positive \$900 million, far exceeding the negative \$400 million of free cash flow last year at this time. The year over year improvement was reflected in almost every business line, including working capital improvements at both MichCon and Detroit Edison, increased net cash at the nonutility businesses and lower parent Company taxes.

As a result outstanding net debt was approximately \$600 million lower at the end of the third quarter of this year compared to 2008. We are expecting a flat fourth quarter for operating cash, reflecting year end cash requirements and normal seasonality. Year end balance sheet metrics are expected to fall well within our targets of 50% to 52% leverage and approximately 20% cash



Oct. 30, 2009 / 1:00PM, DTE - Q3 2009 DTE Energy Company Earnings Conference Call

flow to debt. Capital expenditure detail is shown on page 15. DTE capital spending totaled \$840 million through the third quarter, down about 20% from last year. Detroit Edison's total capital was about flat, with lower environmental spending offsetting higher operational capital. MichCon's year over year capital decline is due to last year's completion of a major expansion project.

On the nonutility side, capital in our unconventional gas drilling is down about \$60 million from last year, reflecting current market conditions. For the full year, DTE capital is on track to reach about \$1.15 billion, about a 20% decline year over year from 2008. Even in the face of the soft local economy, DTE's cash and balance sheet targets are exceeding 2008 and exceeding our original expectations for the year. Now, let me turn it back over to Dave to wrap up.

---

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

Thanks, Nick. Let me wrap up on slide 17. Our regulated growth plan is built on a very constructive regulatory relationship and a fair framework, which will enable the utilities to consistently earn their authorized return on equity of 11%. The nonutility businesses have abundant investment opportunities, which provide a premium return to the utility investments and offer diversification of earnings from both an earnings driver and a geography standpoint. Earlier this year, we laid out our plans for earnings, cash flow and our balance sheet, knowing that the environment would be tough. And we're exceeding all of those financial goals. And at the same time, we're improving on all operational and customer service metrics. And our growth opportunities are well supported by a strong balance sheet, ample liquidity and an attractive dividend.

In terms of some upcoming events, as I mentioned, we will be at EEI next week. The week after that, we have a European [non-DL] Road Show that Tony and Nick will be on. A couple of other upcoming events. On the MichCon rate case, the staff files on November 12 and our self implementation filing is on November 25. And then, on the Detroit Edison rate case, we expect the ALJ ruling on November 13. And then, that case it will play out in mid-January. And our expectations, on that case, is that the order will include at least \$280 million of value, including a bad debt tracker and decoupling. And when that order comes out in January, we will analyze it and get a reconciliation out to you as soon as possible. And that wraps up this call. And we'd open it up for questions now.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And as there are no questions, at this time, I'd like to close the conference back to David Meador for closing comments or additional remarks.

---

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

Well, thank you. I get a sense that just coming off our analyst meeting, where we spent a good portion of the of the day with a very large group of investors and the fact that we'll be at EEI, starting Sunday night, I can understand the fact that there would be very little questions. And we look forward to seeing everybody in Florida, starting Sunday evening. We have a dinner with the group and we're all looking forward to being down there. Thank you.

---

### Operator

That concludes today's conference. Thank you for your participation.

---



## Oct. 30, 2009 / 1:00PM, DTE - Q3 2009 DTE Energy Company Earnings Conference Call

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Reuters. All Rights Reserved.

