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DTE - Q2 2012 DTE Energy Company Earnings Conference Call

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OVERVIEW:

DTE reported 2Q12 operating EPS of $0.86. Expects 2012 operating EPS to be $3.65-3.95.

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PRESENTATION

Operator

Good day and welcome to the DTE Energy second quarter 2012 earnings release conference call. Today's conference is being recorded. Following today's presentation there will be a question-and-answer session.

(Operator Instructions)

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

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you, Evelyn, and good morning everybody and thank you for joining us for our second quarter earnings call. Looking at Page 2 just briefly before we get started, I encourage you to read the Safe Harbor statement including the reference to forward-looking statements. And if you'll turn to Page 3 with me this morning, Peter Oleksiak, our Vice President and Controller, and Nick Khouri, our Vice President and Treasurer, and Mark Rolling, our Director of Investor Relations. I also have some members of the management team with me in the room and on the phone if needed during the Q&A period.

But before I jump into the second quarter I'd like to take a moment to update you on some recent announcements and management changes here in the finance and regulatory team as we continue to build and sustain an outstanding finance and regulatory group. Effective September 1, Peter Oleksiak is being promoted to Senior Vice President of Finance and he will have responsibilities for the controllers organization and treasury which includes investor relations. Nick, who has been our Treasurer for over 11 years now, will assume the role of Vice President of Regulatory

Affairs. And Dan Brudzynski, who is currently in the regulatory role will replace Nick as Vice President and Treasurer and Dan will also have investor relations reporting to him. So Nick and Dan are effectively trading places.

With these changes, this marks the last quarterly earnings call for Nick in the Treasurer's office and I wanted to take a moment to express my appreciation to Nick for the passion and expertise he's brought to the treasury group and the important role that he's played in working with the management team, the Board of Directors, and the financial community to help DTE Energy achieve some great successes over these years, including pulling through some of the toughest economic times like 2008 and '09 that hopefully we will ever see in our life. Many of you have met Dan and as he is been involved in a number of investor relations events over the years and you can look forward to seeing him going forward. And finally congratulations to Peter on his well-deserved promotion. You're not going to lose sight of Nick. He is only 50 feet from my office and he's going to continue to be involved with the investment and credit community.

Turning to Page 4, this morning we are going to cover our second quarter results and give you an update on some growth projects that are utilities and the non-utilities. Let me kick this off on Slide 5. We like to ground all of our discussions with investors in what we call our Investment Thesis as we believe this concisely summarizes the compelling reasons to invest in DTE Energy. We have a disciplined growth plan that will provide a 5% to 6% long-term earnings growth per share and when combined with our attractive dividend provides a 9% to 10% total shareholder return. And all of this is underpinned by one of our key priorities and that is maintaining a strong balance sheet.

Both utilities have robust growth plans if you tried Edison, the growth is driven primarily by mandated environmental controls and renewable energy. While at MichCon, the growth is driven by infrastructure investments, including cast-iron main replacement work and a program to move gas meters that are currently inside customers' homes to outside customers homes. We have a constructive regulatory structure in Michigan which is supported by solid legislation that was passed in 2008 and we know it's our responsibility to earn this construct every day. We utilize our continuous improvement capabilities in everything we do to control cost and we are very focused on minimizing rate increases to our customers and providing our customers with a great level of service they deserve. We continue to see attractive growth opportunities in our non-utility businesses as well, particularly in the Power and Industrial Group and the Gas Storage and Pipelines and I have some updates that I will share with you this morning on those businesses.

So if you'll turn to Page 6, I will provide an overview of the quarter. Our operating earnings per share for the second quarter came in at $0.86 compared with $0.65 in the second quarter of last year. Like much of the Midwest, the summer here in Michigan is off to a warmer than normal start and actually we are on track to possibly one of the warmest summers on record and that translates into strong earnings at Detroit Edison. As a reminder, Detroit Edison was decoupled for weather during the second quarter of 2011 so if you're looking at a quarter over quarter or year over year analysis, the warm weather last year didn't flow through to the bottom line.

Earnings at the Power and Industrial projects were up over the second quarter of last year and that is driven by the REF business line as that's ramping up. And tough market conditions made it difficult for energy trading to generate margin in the second quarter. Peter will take you through some of the details on the quarter in a few minutes. With the first half of the year behind us I am reaffirming our full-year operating guidance of $3.65 to $3.95 per share. As I will describe later, I'm confident of the midpoint at $3.80 and we can deliver higher than midpoint earnings and we will talk about that in a little bit. In June, our Board approved a 5.5% increase in our dividend to an annualized rate of $2.48 beginning in October. This gives us a compounded annualized dividend growth rate of 5% over the last three years and demonstrates our Board and our management team's confidence in our long-term growth plan.

The balance sheet remains strong and we generated over $1.2 billion in cash from operations through the first half of the year. In June of this year, Detroit Edison raised $500 million of 10- and 30-year secured debt at the lowest rates in the Company's history. The proceeds from the net offering will be used primarily to refinance higher cost debt which is maturing or is callable later this year. On another topic we've also been very clear about our strategy to exit the E&P business by selling our assets in the Barnett Shale and we started talking to you last year about the shale formation called Marble Falls which is just above the Barnett formation. DTE has been a front runner in this newly emerging oil rich play. As we proof up the acreage we have moved way up the learning curve and we're now seeing top-tier returns from our vertical wells there.

We recently concluded a study that shows a 50% increase in our total reserves over 2011 including 114% increase in the crude oil reserves. You will find additional details on the Barnett and Marble Falls assets in the appendix on Slide 22 and 23. We intend to go to market with these assets later this year and will keep you posted on our progress and EEI is going to be a good time to give you an update on this and some of the other things we have underway.

Shifting to areas of growth for the Company. In the second quarter our Gratiot County Wind Park became fully operational. This is the largest wind farm in the state of Michigan with 212 megawatts of generating capacity. Construction is underway on our 110 megawatt thumb wind parks which includes three sites in Huron and Sanilac counties. In addition to those two projects, we recently announced another 110 megawatt wind development in Huron County which will be constructed in 2013. All of these projects demonstrate the significant progress we are making in achieving the 10% renewable energy standard in Michigan by 2015 which we think is a good standard and a sensible approach to approaching renewable energy.

On the non-utilities side of the business we're very excited about the growth potential surrounding the gas midstream assets we have in the Marcellus Shale region. Our first major project that we've been talking to you about is the Bluestone lateral and gathering system and that project is moving along nicely. The anchor tenant on the project has been seeing some very positive results in their drilling so we continue to be optimistic about the opportunities that we have in this area. As we work our way through the final stages of the right-of-way and permitting process and then move into the construction phases, we are still targeting the pipeline to go in service in the fourth quarter of this year.

In the P&I segment we are pleased with performance and throughput at the five sited REF or reduced emission fuel machines and we're making good progress inside in the remaining four machines. In fact, the first of the four is being relocated as we speak and should be up and running in the third quarter. We also have completed negotiations with the host utility of the second of the four machines that will be relocated and we expect to finalize agreements and begin moving that machine soon. And then we are engaged in advanced discussions with several other potential host sites for the last two machines. So our relocation process is on track and the goal is to have all of the REF machines sited and operational by the end of the year which will provide a nice earnings bump in that segment for 2013.

For some new news on the P&I segment, we've shown you the forward projection goals that we are pursuing for this business where we want to drive the earnings from $50 million this year to $125 million by 2016. And the step that we made as an acquisition of an on-site business line that we recently agreed to purchase from Duke Energy for a little over $200 million, so this is a portfolio of on-site energy projects. These projects are primarily located in the Midwest and mid-Atlantic regions and they provide on-site utility and energy services. They're very similar to our existing on-site projects and they represent assets and equipment and technologies that we have extensive experience in.

This acquisition will effectively double the size of our on-site business and expands our customer base broader into the Midwest. We target returns on these contracted services that are above our utility returns and in addition to that we get very good strong cash flows. So we see these projects making a significant contribution towards our goal of growing the P&I segment to $125 million in operating earnings by 2016. The acquisition will be funded by the parent off our balance sheet and the exact details of the funding requirements and timing has not yet been determined and the deal has not closed yet. It will close later this fall. So we still anticipate that we will stay within our balance sheet targets even with this acquisition and we do not see the need to raise equity beyond the $300 million requirement that we communicated to you in 2012.

Turning to Page 7, and talk a little bit about guidance. With half the year behind us, we remain committed to our full-year 2012 earnings guidance. Detroit Edison came into the year with a plan that targeted its authorized return on equity and with warmer-than-normal weather we are experiencing during the second quarter and then through the month of July, we now expect to see Detroit Edison come in above the upper end of the guidance range. Some of the July's weather favorability will be offset by increased storm cost as a result of significant storm activity we experienced in the beginning of the month.

While Detroit Edison has benefited from weather this year, MichCon continues to dig out of the hole created by the extremely mild winter. Quite frankly MichCon's going to need to work hard to reach the low end of guidance for the year, but with continuous improvement work that we're doing and one-time cost actions, we think the bottom end of the range is achievable. With some revenue opportunities at gas storage and pipelines, we expect them to be at the upper end of the guidance range which will help offset some of the challenges at MichCon. We continue to ramp up the area business line and what we see is the P&I segment is going to end towards nearer the top end of the guidance range for the year.

Energy trading, I had are ready mentioned. Energy trading turned in modest results for the quarter and it's still not at the level we would like to see. So for the year we are signaling that energy trading will likely not reach the lower end of its guidance range and due to the shape of the roll-on that we would see for the rest of the year the remaining profits that we would see for the remainder of the year, a good portion of that is going to be back-end loaded will show up in the fourth quarter. And finally, we expect the holding company to have improved results over last year driven mainly by lower interest rates from the refinancing that we've been actively doing. So in total we are committed to our original operating earnings guidance range of $3.65 and $3.95 and if the favorable weather continues that we've been seeing at Detroit Edison, we could be above the midpoint of that range.

Before I hand it over to Peter, I would like to give you an update on a regulatory item that we discussed in the first quarter. As you may recall back in April, the Michigan Court of Appeals issued a decision that the MPSC had exceeded its authority when it authorized Detroit Edison to adopt a revenue decoupling mechanism. As of the first quarter Edison had accrued $127 million as a regulatory liability related to the pilot revenue decoupling and this predominately represented weather in prior years. The MPSC has until Monday to appeal that decision to the Michigan Supreme Court and we won't know until then what the Commission will or won't do.

If the Commission appeals the decision it could be some time before we learn if the Supreme Court even will hear the appeal. And if the appeal is taken, it's likely it could take months to years before it's completed. On the other hand, if the MPSC doesn't appeal we will propose an alternative to the Commission that will support our regulatory strategy for Detroit Edison. Our goal is to minimize rate increases to customers while achieving our financial objectives. That said, the $127 million could be a key component of a plan to potentially push the need for base rate increases at Detroit Edison out to 2015. So with that overview let me pass it over to Peter who will take you through some additional details on the quarter.

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

Thanks Dave and good morning everyone. I'd like to start with Slide 9 in our second quarter operating earnings per share by our segments. For the quarter, DTE's operating earnings were $0.86, Detroit Edison contributed $0.74, MichCon, which typically incurs an operating loss for the second quarter, came in at $0.02 of income. And I will talk little bit more about that in a minute. The non-utility segments combined to earn $0.17. The drivers for the non-utility second quarter results were Gas Storage and Pipeline at $0.10, Power and Industrial projects at $0.06, Energy Trading at $0.02, and Unconventional Gas Production at $0.01 loss. Finally, Corporate and Other had a loss of $0.07 in the quarter.

Let's move to Slide 10 and a summary of the quarter over quarter performance by segment. Operating earnings for the consolidated DTE Energy are up $35 million for the quarter. Detroit Edison's operating earnings were $127 million, up $27 million from prior year. We have provided a quarter over quarter walk in the appendix on Detroit Edison for reference, but the message is pretty straightforward. The favorability is primarily driven by warmer weather in the second quarter of 2012 paired with the elimination of the revenue decoupling mechanism.

In addition, Detroit Edison's renewable investments provide incremental earnings as we continue to execute our investment plan there. July is also shaping up to be a strong weather-driven load month, although as Dave pointed out we have experienced increased storm restoration expenses which are likely to offset a portion of the improved margin. Summer through mid-July we had -- just to give you a few stats. We had 23 days at or above 90; normal is 12. And of those, we've had four of those days were above 100 degrees. As Dave mentioned in the guidance update, we are anticipating an overall uplift from weather in the third quarter if the summer holds out.

Putting weather aside, I know a number of you are interested in terms of what's happening with our underlying load in the economy, so want to give a brief update. Temperature-normalized electric load in the territory when you look at it at a year-to-date temperature, taking out the impact of weather is relatively flat. As a reminder, we had a pretty nice bounce back in sales after the 2008 and '09 economic downturn and we have seen a 21% increase in sales alone since 2009. We are continuing to see a trend of growth industrial sales and actually year-to-date in the service territory, it's a 2% increase, really attributed to auto and other related manufacturing production.

For the residential and commercial classes, we are seeing very positive results in our energy efficiency programs which have lowered the absolute load of both those classes year over year. For the year we expect this flat-load trend to continue with continued energy efficiency savings offsetting territory growth. In the longer-term, we are anticipating load increases close to 1% after the energy efficiency savings. Getting back to the earnings, moving down the table our MichCon segment had operating income of $4 million, up $7 million from the prior year. The favorable earnings were driven mainly by an accounting true-up after the completion of the initial reconciliation of MichCon's revenue decoupling mechanism. MichCon also experienced unfavorable weather in the quarter that partially offset this benefit.

Our non-utility segments were nearly flat year over year at $29 million earnings in the quarter. Gas Storage and Pipelines up $3 million, resulting from stronger transport and storage revenues. Power and Industrial projects is up $5 million, due to REF project growth, partially offset by lower coke sales, volume, and price. Energy trading is down $8 million in the quarter due to a commodity price environment that provided a lower than historical number of opportunities. In the Appendix Slide 24 you'll see that our standard operating earnings to economic net income [lock]. In this lock you will see that segment did have economic contributions significantly higher than the operating income; this difference represents restructuring of some longer-term contracts that will not realize that accounting benefits for a few years out.

As Dave had mentioned, we expect that our full-year earnings for trading will likely be below the guidance range of $30 million to $50 million as the commodity environment we have experienced in the first half of year continues to the second half. For the second half of the year we do expect energy tradings and earnings to be back-end loaded with about $10 million of after-tax benefit coming in the fourth quarter due to roll-on of earnings related to prior year's full requirement deals, with minimal roll-on and earnings expected in the third quarter. Lastly Corporate and Other was up $2 million from last year due to lower interest, partially offset by higher taxes in 2012. That concludes an update on the earnings for the quarter and I will turn the discussion over to Nick Khouri for the last time in an earnings call who will cover cash flow and capital expenditures.

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

Thanks Peter, good morning. As always and one last time improved cash flow and balance sheet strength remains a key priority for management and Board of Directors. For the first half of this year, DTE Energy's cash and balance sheet metrics are on track to hit our full-year goals. Page 12 summarizes those balance sheet metrics. We expect to end this year within our targeted leverage and cash flow ranges. In addition we appreciate a series of credit improvements by the rating agencies so far this year, including an upgrade at Fitch and a positive outlook at Moody's. As discussed in prior calls, we are on track to issue $300 million in new equity in 2012 through a combination of employee compensation, dividend reinvestment, and pension contributions. As Dave mentioned, DTE has been able to take advantage of a historically low interest rate environment. During the last 18 months we've issued or refinanced nearly $2 billion of long-term debt. Finally, liquidity remains strong with over $1.9 billion of available liquidity at the end of the quarter.

Page 13 provides an overview of DTE's cash flow so far this year versus the same period last year. Cash from operations at $1.2 billion, matched last year's level and we are well on our way towards the full-year target of $1.9 billion. As expected, capital is up compared to last year which I will detail in a minute. All told, net cash after dividends was a positive $100 million in the first six months of 2012.

Page 14 details capital spending. So far this year total capital DTE is about $100 million or 13% from the prior year. We expect increased levels of capital spending in the second half of the year and are on track to hit the prior forecast of $1.9 billion for all of 2012. In summary, DTE's cash and balance sheet targets are on track supporting higher levels of investment across all of our businesses. Now let me turn it back over to Dave to wrap up.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thanks Nick. The results for the first half of the year are solid and on track and I'm pleased with where we are and that's why I'm confident reaffirming our full-year operating guidance of $3.65 to $3.95 a share. As you heard, weather is affecting 2000 (sic -2012) earnings at both utilities, MichCon to the negative and Detroit Edison to the positive. On a temperature-normal basis, both utilities are on track to earn their authorized return on equity. But it is still too early for us to remix the guidance for the year, but the weather-driven favorability looks like it will offset any miss at energy trading and the weather also, if it continues, as we've indicated could push us above the $3.80 midpoint on our full-year earnings per share guidance.

Long-term, the utility growth plans are underpinned by mandated investments at the utilities and we are seeing very nice growth potential at our non-utility businesses and they combine together to provide long-term growth of 5% to 6% earnings per share. And as we've said and we will always say, we do this while maintaining a strong balance sheet and strong cash flow metrics. Over the last three years we've increased the annualized dividend 5% on a compounded basis and as we continue to achieve our long-term earnings-per-share growth, we expect the dividend will continue to grow as well. We will be back on the road at the end of the summer and will likely see many of you at either the Barclays or the Bank of America conference in New York in September. And with that Evelyn, we'd be happy to open it up for questions now.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Kevin Cole, Credit Suisse.

Kevin Cole - *Credit Suisse - Analyst*

Good morning guys and congrats on all the promotions. First on Detroit Edison, can you help me think through how significant the storms were in July and if the July favorable weather was sufficient to offset it?

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

We don't want to necessarily give you July numbers or third quarter numbers but, if you look at what played out in July in the statistics that the reported we have pretty solid load. I would just say that right now, we haven't closed the books, but it looks like about half of it might've been offset with storm costs. So there is still will be, net of storm, there will be some positive margin playing through.

Kevin Cole - *Credit Suisse - Analyst*

Thank you. And then Dave, in your scripted remarks how long did you indicate that you might be able to stay out from filing a rate case on the electric side?

Dave Meador - *DTE Energy Co - EVP, CFO*

As you know, the way we have been working our rate proceedings is to stay out as long as possible using continuous improvement and then when we do file, file for as little as we possibly can because we are very sensitive to customer rate increases. Right now, we are looking to see if it's possible to stay out as far as 2015 and we're working our way through that and one of the reasons we're doing that is there is Fermi securitization charge that rolls off in that time frame. And we are seeing if we can bridge our way all the way to that. Don't know if we can but it's a goal the we are looking at right now.

Kevin Cole - *Credit Suisse - Analyst*

Great. Thank you. And last question on the REF business. Now since you are significantly down the path are you still targeting roughly $55 million or are you still seeing potential for it to migrate up towards the $75 million level?

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

Still too early. As we've indicated it really depends where the machines get sited. I know where the seven are and we're working on the last two and as you would expect we are trying to drive these machines to not only plants that consume a lot of coal -- I'd rather be at an 8 million ton per year plant versus a 2 million ton per year plant and also plants that are going to run over the lifetime of the credit. We're working with a handful of a host utilities and I can't tell you where this is going yet, but certainly by the time we get to EEI we will know by then. We will have line of sight of where the nine machines are going to be. And then just to remind you we are relocating the four right now but down the road there is still the possibility of one of those Detroit Edison machines still could give moved again and take us even to a higher ton per year plant, so that is something still down the road. But EEI, I think will be a good line in the sand to give you an update on where at least we know the nine will be starting in 2013.

Kevin Cole - *Credit Suisse - Analyst*

And were any of the existing plants or target plans impacted by the fall in utilization rates for coal plants earlier this year?

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

No.

Kevin Cole - *Credit Suisse - Analyst*

Thank you guys. Congrats.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold - *Deutsche Bank - Analyst*

Sorry this is a revisit of your comments on guidance, but just to make sure I understand fully. I think you said that you would need the favorable weather to continue in order to push you above the midpoint. Do you mean by that, continue to have above-average weather for the rest of the summer or just not see what you've already had flow back.

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

Kind of a context as I think about this is we had warm winter which was almost third standard deviation warm winter, warmest winter on record. We are now having the warmest summer on weather and it's brought some storm. So we're just signaling that things look really positive right now but also just reminding all of us that we've got a lot of year ahead of us that could bring either great weather results or not. Things look pretty positive right now and we will be able to get a better sense of this as we get through the summer months.

Jonathan Arnold - *Deutsche Bank - Analyst*

But if you had normal say from now to the rest of the summer is, would you still be tracking ahead of the midpoint?

Dave Meador - *DTE Energy Co - EVP, CFO*

John, the dynamics is both weather and the storms, so normal weather, normal storms actually would provide an uplift for us in third quarter, going forward.

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Jonathan Arnold - *Deutsche Bank - Analyst*

So you're above midpoint statement would be correct even if we were normal from here?

Dave Meador - *DTE Energy Co - EVP, CFO*

Yes.

Jonathan Arnold - *Deutsche Bank - Analyst*

Okay. That's great. Thank you. And on the Power and Industrial with this acquisition that you are doing from Duke, I think you said it was going to more or less double the size of the business. How should we think of that in terms of the target is this kind of -- with this acquisition you're going to achieve most of what you're trying to achieve in that business or is there incremental stuff you are working on that potentially you would take that range off as you close on this and maybe do whatever else you are working on.

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

If you recall we showed charts of some of our roadshow packages that would indicate that Power and Industrial is targeted to earn $55 million this year and our goal is to get it to $125 million and we had a stairstep up to say here's how much that growth will come from REF, here is how much of that growth would come from the wood-fired plants, and then there was still some white space. I would describe it as it's filling in about 50% of that white space between now and 2016. And also just to clarify on doubling the size of the business, it's doubling basically our on-site energy business line within the Power and Industrial group.

Jonathan Arnold - *Deutsche Bank - Analyst*

Okay. So it's a piece of the puzzle, basically.

Dave Meador - *DTE Energy Co - EVP, CFO*

Right.

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

It just fills in some of that white space.

Jonathan Arnold - *Deutsche Bank - Analyst*

Thank you very much.

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

Okay.

Operator

Brian Chin, Citigroup.

Brian Chin - *Citigroup - Analyst*

I know you guys have -- the MichCon rate case application has been out there for a little while, but in one of your summary slides you had said that both utilities are earning close to their allowed ROEs. Just big picture, rationalize again why is that we are going in for a rate case with MichCon when the utility seem to be earning close to its authorized ROE under temperature normal conditions.

Dave Meador - *DTE Energy Co - EVP, CFO*

Couple things. First is really to true up our underlying load. We do have a decoupling mechanism but you need to go in periodically to true that up. The other is, we are spending more than depreciation -- actually we're filing here with stepped up infrastructure around our mainline replacement in [mini] move-out program, so we are proposing a mechanism for that and recovery around that. So that's the other need for a rate case.

Brian Chin - *Citigroup - Analyst*

Excellent. Thank you.

Operator

Mark Barnett, Morningstar.

Mark Barnett - *Morningstar - Analyst*

Curious if you could provide a little more detail, when you mentioned obviously some of the long time frame for maybe sorting out the decoupling issue, you had mentioned there is some alternatives that you are considering. Can you talk a little bit about what those might be?

Dave Meador - *DTE Energy Co - EVP, CFO*

Well as I indicated, the MPSC has until Monday to either appeal this decision to the Supreme Court or not. If they choose not to appeal we are prepared to make a proposal to them that would be public next week. And then we would obviously have to get into discussions with staff on that issue. So I would prefer to wait until next week. So the way this will sequence out is that if they do not appeal, we will be making a filing with them next week and we'll 8-K that so you will be aware of what we are thinking about.

Mark Barnett - *Morningstar - Analyst*

Okay. Thanks. Appreciate that. A second question on the regulatory front, with the 11% requested ROE, have you had any or much discussion I guess around that number yet and are you getting any pushback on that figure based on some CAPM-based methodologies or can you talk about that at this point?

Dave Meador - *DTE Energy Co - EVP, CFO*

It's really way too early in the process if you look -- I think it's in the appendix. We have a schedule for the MichCon rate case. We filed in April; staff testimony is not filed until September; and then this case will play out in the fall. So other than saying that we stand by our filing and our methodology right now there's not much else I can say and I think you'll have to wait and see where the staff takes their position of the fall.

Mark Barnett - *Morningstar - Analyst*

Okay.

Dave Meador - *DTE Energy Co - EVP, CFO*

And certainly will talk more about it in the fall as this evolves. We always through the rate proceeding will stand by our numbers.

Mark Barnett - *Morningstar - Analyst*

Okay. Thank you.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you.

Operator

Kevin Fallon, [SIR] Capital Management.

Kevin Fallon - *SIR Capital Management - Analyst*

Just a question on the portfolio that you guys are buying -- the $200 million. Are you expecting to earn above utility-authorized returns on the $200 million or a smaller equity component?

Dave Meador - *DTE Energy Co - EVP, CFO*

So the way we described this business line that is our energy services business line that we already do this with, where we own and operate assets like wastewater treatment and a variety of energy assets that include compressed air and things like that. We target a 9% to 10% IRR in this business line and it's slightly above a return that you would see at the utility. I've always referred to this as our private utility so we get slightly even better utility returns. I don't have to go through rate cases. It's not exposed weather. It's been a nice stable earner for us.

Kevin Fallon - *SIR Capital Management - Analyst*

So you should earn that on the full $200 million?

Dave Meador - *DTE Energy Co - EVP, CFO*

Yes.

Kevin Fallon - *SIR Capital Management - Analyst*

And on the REF plant that are being either relocated currently or are under contract to be relocated, can you give the tonnages that are on those two?

Dave Meador - *DTE Energy Co - EVP, CFO*

No. We're not going to do that at this time.

Kevin Fallon - *SIR Capital Management - Analyst*

Is that an EEI update kind of thing?

Dave Meador - *DTE Energy Co - EVP, CFO*

Depends where we are on the other two machines. Obviously, as I'm negotiating with various counterparties I think we're just not going to provide that detail yet and possibly at EEI. And if not, then it would be after the first of the year when everything is sited and up and running.

Kevin Fallon - *SIR Capital Management - Analyst*

Okay. And last question. In the slides you indicate that you expect to earn your authorized ROE on a temperature normal basis. Does that mean at Detroit Edison this year it's possible or likely even that you'll overearn this year because weather is so strong?

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

When you look at authorized returns it always is on a temperature-normalized basis, but there is, as we push above the upper end of guidance, obviously returns will go above that authorized return.

Kevin Fallon - *SIR Capital Management - Analyst*

So the strength at Detroit Edison this year, it's the weather which pushes you above your authorized and that's it.

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

That's correct.

Kevin Fallon - *SIR Capital Management - Analyst*

Okay, thank you.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you.

Operator

(Operator Instructions)

Andrew Weisel, Macquarie Capital.

Andrew Weisel - *Macquarie Research Equities - Analyst*

You already touched on most of my questions, but I just have one or two more bookkeeping ones. Can you quantify the weather impact in 2Q both versus the prior year and of the normal weather assumption that you had originally embedded in guidance?

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

For the Q2 it's $21 million just for the quarter for Detroit Edison alone. And if you look at it and actually in terms of the weather impact, last year we had a decoupling so actually it was brought back to temperature normal. So the $21 million really represents our deviation for temperature normal this year.

Andrew Weisel - *Macquarie Research Equities - Analyst*

Okay got it. Thank you. Then lastly on the corporate impairment, there is no real change to the $54 million guidance. The refinancing, if I recall was late June, so would it be fair to say that that number could come down in this year and future years and maybe any other thoughts on the trajectory of that going forward?

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

Right now there is net interest savings that will flow-through that but there is some other items that possibly could offset that from time to time including some tax items that flow through that. So for now we're holding at that number and I think the appropriate time for us to give you an update on the trajectory going forward with the would be provide 2013 guidance. But I think in general, it's probably going to be about at the level it is.

Andrew Weisel - *Macquarie Research Equities - Analyst*

Fair enough. Thank you very much.

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

Okay.

Operator

Paul Patterson, Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

Just on the sales growth and weather impact, I was little confused. When I'm looking at the supplemental slides, it looks like residential sales growth is down 1% and I assume that's with this hot weather. Commercial looks like it was up and I wasn't -- at least I didn't follow through with the comments that you guys had in terms of what is driving -- in terms of the numbers I thought you guys were mentioning were a little bit flatter, so could you elaborate a little bit on that for me?

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

As you mentioned from a weather perspective, the residential segment -- you look at the first quarter with the warm weather we had really impacted MichCon but it did impact electric segment as well. There's a lot of heating related load. So when you look at it all and compared to last year actually on a temperature normal -- with a weather basis, actually we are down. So really the heating load impact that we saw in the first quarter was partially offset with the cooling demand that we saw in the second quarter.

But some of that just reflects on the weather we had last year. Last year we had a good winter also as well as a relatively warm second quarter. But when you look at even for the year for residential, when you look at on a pure temperature normal basis year-to-date actually, we are above. So we are seeing positive impact on a comparative basis to temperature normal but a decline year over year given the strength of the weather last year. And from an earnings perspective really what matters is where we are versus the temperature normalized basis since last year really was swept by the revenue decoupling mechanism.

Paul Patterson - *Glenrock Associates - Analyst*

Sure. But when we look at this -- in other words, so last year was warmer than this-- Q2 2011 was warmer than Q2 2012?

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

We were actually warmer this year, but the first quarter we had more strength of weather-related sales for residential.

Paul Patterson - *Glenrock Associates - Analyst*

But it looks like residential went down on a year over year basis Q2 2011 versus Q2 2012. I'm just wondering -- just seems like it's a little counterintuitive if weather was warmer -- I can follow up offline, I guess. Also was there a higher peak this year given the record-setting temperatures or did you guys not have a higher peak?

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

We don't have that number with us and I think that the territory peak was higher but I think our load was comparable. You're talking through June. I think July is going to be different. I think we're going to see that we're hitting new peaks in July but we'll obviously update that on the third quarter call.

Paul Patterson - *Glenrock Associates - Analyst*

Okay.

Dave Meador - *DTE Energy Co - EVP, CFO*

On load, just an observation coming out of 2008. We went down really hard as you know and then we saw very significant bounce back in 2009 and then '10 in our industrial load. Commercial load lagged that a little bit, so we did see the up in 2009. We saw a big up in commercial load in 2010 and then residential load over a long period of time has surprised us in terms of its strength. So when we look at broader economic indicators here we are seeing a lot of positive signs. We're looking as you are looking at these quarter-to-quarter numbers and saying, does it indicate a trend that we should be concerned about going forward and we don't see that. We're still seeing long-term load growth. It will be modest and won't be as robust as we saw possibly historically, but something over 1%.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. Then just on the rate proceeding just to make sure I understand it. If your new proposal -- we don't know what's going to happen with the decoupling but it looks as if you are able to get your new proposal that may or may not be released next week depending on what happens with the MPSC's actions with the Supreme Court, you guys think that you may be able to stay out of for an electric rates case for how long was it again?

Dave Meador - *DTE Energy Co - EVP, CFO*

Our goal is to see if we can stay out till 2015. This piece would only be one of several things that we would have to work on, so it's not just using the $127 million. But it certainly -- it's an anchor to that that says if we can get agreement not to return that to net income but to use that it could be part of a series of things that we do that would allow us to stay out for a while.

Paul Patterson - *Glenrock Associates - Analyst*

Then just finally on Slide 24, your trading reconciliation. If I'm understanding it correctly, it looks like you guys are pretty much where you were in 2011 on trading except for these accounting adjustments, except for the accrual treatment with certain contracts and what have you. Am I getting that pretty much correct?

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

It is, but I did mention if you look at that difference in terms of the economic versus accounting, those -- it really is related to some longer-term contracts we restructure, so we will see the accounting benefit but it will be a few years out. So you're not going to see that this year or next year.

Paul Patterson - *Glenrock Associates - Analyst*

Okay great. Thanks so much.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you.

Operator

Jim von Riesemann, UBS.

Jim von Riesemann - *UBS - Analyst*

Can you just talk about the future in terms of cash flow, what your outlook is for say 2013 and beyond, both on a cash flow and maybe some of your funding needs, both the debt as well as the equity?

THOMSON REUTERS

Dave Meador - *DTE Energy Co - EVP, CFO*

We provide a three-year look. We usually do that when we come out at EEI.

Jim von Riesemann - *UBS - Analyst*

Right.

Dave Meador - *DTE Energy Co - EVP, CFO*

So if you recall what we have laid out was that in a sources and uses that over a three-year period we needed $1.2 billion and that was going to be $300 million of equity each year and that would be done through our benefit plans and our pension plans so DRIP and pension, and then there was another $300 million that we were earmarking for asset sales which is predominately the Barnett sale.

Jim von Riesemann - *UBS - Analyst*

Is it safe to assume some of the basic premises of the business are going to be the same going forward in terms of the internal plans, et cetera?

Dave Meador - *DTE Energy Co - EVP, CFO*

Yes.

Jim von Riesemann - *UBS - Analyst*

Thanks.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold - *Deutsche Bank - Analyst*

Just a quick follow-up. Sorry if I missed this. Did you disclose what the amount of the RDM true up at MichCon was in the second quarter? Or could you if you didn't?

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

It was around $10 million pretax.

Jonathan Arnold - *Deutsche Bank - Analyst*

Okay. Thank you.

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

About $11 million. Yes. $11 million.

Jonathan Arnold - *Deutsche Bank - Analyst*

$11 million pretax? Okay. Normal tax rate on that?

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

Yes.

Operator

Kit Konolige, BGC Financial.

Kit Konolige - *BGC Financial - Analyst*

So couple of strategic items. Energy trading obviously continuing to track below your expectations. Is there any thought about whether you want to remain in that segment indefinitely at this point?

Dave Meador - *DTE Energy Co - EVP, CFO*

We are going to remain in the segment. As we've indicated we like this business. It's not part of our growth plan. It provides a lot of market intelligence and provides a lot of hedging and other activities to other parts of the business. And over a long period of time it's thrown off a significant amount of cash to the parent, so we like that. And the market opportunities are soft right now so it's just they are struggling to generate margin right now. It's a business where we have to deal with what the market brings us necessarily and it's not a business I'm going to push them hard. So even though I'm not happy with the net income, the team is doing everything they can do in this environment. So we're not going to change our risk profile or get more aggressive just because I don't want to chase net income.

Kit Konolige - *BGC Financial - Analyst*

Okay good. And then so for the Barnett assets looking at a sale there by year end. Can you give us some insight into -- do you have that process underway now? Are there benchmarks or milestones that we should be looking towards?

Dave Meador - *DTE Energy Co - EVP, CFO*

What we had laid out was we wanted to prove up the properties and we had actually a pretty aggressive drilling program that was going on through August. So we went from one rig to two rigs to three rigs. For a company our size that's a lot of rigs drilling and they will be done drilling in August and complete their wells in September. And we are already starting the process of setting up the data room and so on. All indications right now is that we will engage in the process starting in the September timeframe.

Kit Konolige - *BGC Financial - Analyst*

And one final item separately. Do you have some idea of a run rate in net income or EPS from the savings on interest rate refinance -- the refinancing flowing through the debt into the income statement?

Dave Meador - *DTE Energy Co - EVP, CFO*

Long-term the number is in the $25 million to $30 million range.

Kit Konolige - *BGC Financial - Analyst*

That's in a net income?

Dave Meador - *DTE Energy Co - EVP, CFO*

That's pretax savings, so that is DTE so that is across the enterprise.

Kit Konolige - *BGC Financial - Analyst*

Very good. Great. Thank you.

Dave Meador - *DTE Energy Co - EVP, CFO*

Okay. Thank you.

Operator

Vedula Murti, CDP Capital.

Vedula Murti - *CDP Capital - Analyst*

I was wondering in terms of following up on Kevin Fallon's question on the P&I acquisition here, would it be reasonable for us to think that on $200 million of capital investment basically call it 50/50 and maybe 200 basis points superior return on equity versus a utility return in terms of kind of a baseline?

Dave Meador - *DTE Energy Co - EVP, CFO*

I would hold back on this right now and I'm not going to provide any more details. We've not closed on the transaction yet, first of all, and it's possible that there is a number of projects here that are evaluating that might not come into the final close. And there also -- and we will a this out in more detail, this is a project that has accounting amortization that's front-end loaded, so the earnings grow over time. It's very strong cash flows from the beginning, but there's an accounting nuance here so I wouldn't take that high level approach and I'm not prepared to -- it's too early to give you more details on that right now. I would just caution you not to do that and then just suggest again, the way of thinking about this is we showed you the white space in the growth for the P&I business and that long-term, this fills in about 50% of that white space if you want to kind of size the net income off this investment.

Vedula Murti - *CDP Capital - Analyst*

Fair enough. Thank you.

Operator

[John Nally, KIK] Capital.

John Nally - *KIK Capital - Analyst*

Just a couple of quick follow-up questions. Your plan for DTE is to stay out as long as possible. When would you file and what year would that be effective?

Dave Meador - *DTE Energy Co - EVP, CFO*

If we are successful in working out everything that we would have to work out we would file in 2014.

John Nally - *KIK Capital - Analyst*

Okay.

Dave Meador - *DTE Energy Co - EVP, CFO*

Now, the caveat there is, again in the spirit of doing everything we can for customers while achieving our financial objectives, I'm articulating this as a goal. If we are not able to work out everything that we want to do, we would be filing earlier. But right now we're articulating that as a goal of push the filing out to 2014 for new rates in '15.

John Nally - *KIK Capital - Analyst*

Understood. On the Barnett, is the 300 still good number to use as a bogey?

Dave Meador - *DTE Energy Co - EVP, CFO*

Yes, for now.

John Nally - *KIK Capital - Analyst*

When will we see a more defined update on that?

Dave Meador - *DTE Energy Co - EVP, CFO*

Possibly third quarter or EEI will be able to give you indication. It depends how quick the process goes.

John Nally - *KIK Capital - Analyst*

Got you. Thank you very much.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you.

Operator

Kevin Cole, Credit Suisse.

Kevin Cole - *Credit Suisse - Analyst*

One quick follow-up on the electric rate case. Given Fermi securitization roll off of around $300 million in 2015 do you think it is possible for this net in effect to fully offset your CapEx plan between now and then to execute a near 0% customer bill increase rate case?

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

Kevin as we are working through our own planning we think this is a piece of the puzzle. As you know, we are always looking at cost and how do we do our own self-help in the space. It will be a combination of the two.

Kevin Cole - *Credit Suisse - Analyst*

Great. Thank you.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you.

Operator

(Operator Instructions)

Ashar Khan, Visium.

Ashar Khan - *Visium Asset Management - Analyst*

My questions have been answered. Thank you.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you, Ashar.

Operator

There are no further questions at this time. Mr. Meador, I will turn the conference back to you for any additional or closing remarks.

Dave Meador - *DTE Energy Co - EVP, CFO*

Thank you again for joining us and as I indicated I think the next time we will see everybody, first at the Barclays conference and the BofA Merrill conference a couple weeks after that and wish you a nice warm summer and we will talk you in the fall.

Operator

And that does conclude today's conference. Thank you all for your participation.
