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DTE - Q4 2013 DTE Energy Company Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 14, 2014 / 2:00PM GMT

OVERVIEW:

DTE reported 2013 operating EPS of $4.09. Co. reported 4Q13 results.

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PRESENTATION

Operator

Good day and welcome to the DTE Energy-hosted year-end 2013 earnings release conference call. Today's conference is being recorded. If you have any questions or comments regarding today's call (Operator Instructions).

At this time I would like to turn the conference over to Anastasia Minor. Please go ahead.

Anastasia Minor - *DTE Energy Company - Executive Director, Investor Relations*

Thank you, Noah, and good morning, everyone. Happy Valentine's Day.

Welcome to our 2013 year-end earnings call. Before we get started I would like to remind you to read the Safe Harbor Statement on page 2 including the referenced forward-looking statements. Our presentation also includes references, reference to operating earnings which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP net income to operating earnings provided in the Appendix of today's presentation.

With us this morning are Gerry Anderson, our Chairman and CEO, and Peter Oleksiak, our Senior Vice President of Finance and CFO. We also have members of our management team with us to call on during the Q&A session.

And with that, I would like to turn it over to Gerry to start our call this morning.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Well, thanks, Anastasia, and good morning, everybody. Thanks for being with us, particularly those of you in the East who may have had to fight your way through weather to find your way to a phone. We are going to take you through an agenda today that is shown on slide 4.

I am going to start with a look back on our accomplishments this past year and then I will turn and look forward to some of our growth and investment opportunities. I think we have some interesting updates for you there today. And then I will turn it over to Peter Oleksiak, who will give you a financial update.

So let me start with a look back, and I am going to frame my look back on 2013 in the context of our Company's system of six priorities, which is shown on slide 5. I have discussed this system of priorities with all of you before.

This is how we run the company. And the concept is pretty simple. We are very focused on the Company, at the Company on employee engagement. We measure it, and the notion is that if we can get people to bring a high degree of energy and focus to what we do, then we can train that energy and focus on producing great outcomes for our customers, train it on using our continuous improvement skills to control our costs, and on growing the Company.

And if we do those three things really well, we have a much better chance of having a constructive political and regulatory context, because our politicians and regulators care about how we treat our customers, how we manage our costs, and whether we are able to tie our growth into the economic development activities of the state. And if we can combine a strong political and regulatory context with healthy growth, we produce good sustainable outcomes for you.

And I certainly have learned over the past five years that if we are going to deliver you sustainable, strong, financial results and do that consistently then we need to bring intense focus to the priorities that are upstream or to the left of the financial performance shown on this page.

So how did we do against these priorities in 2013? So, moving on to slide 6. I said we start with engagement. We use Gallup to measure that for us. They do it all over the globe and we have the highest engagement measurement in the Company's history. We moved from the 78th to the 85th percentile in Gallup's global database. So we are now 5 percentile points from our goal of being a top decile engagement company.

And as a result of that work we received Gallup's Great Workplace Award. They give that out to a handful of companies that are progressing especially well in this area. And parallel to that we achieved the best safety record in the Company's history. Our OSHA recordable rate was at an all-time low. We are clearly strongly into the first quartile moving towards top decile there, which is clearly our goal as well.

On the continuous improvement front, we continue to build and train the skill set in the Company. That has enabled us to keep our O&M expenses at 2003 levels. We are at the same cost level we were a decade ago. Our continuous improvement program was recognized by the London Process Excellence Network, that is a worldwide continuous improvement in process excellence organization, recognized us as the best process improvement example over the past two years. And one of the places we trained those skills on was reducing the cost of our renewable resources. The construction costs are down, purchasing costs are down, [right] locations are producing higher capacity factors. As a result we are able to recently reduce the renewable energy surcharge which was good for our customers.

Speaking of customers, both of our utilities are in the top quartile of J.D. Power's customer satisfaction rankings, which is a good outcome, but frankly we are firmly focused on being in the top position of both of those rankings and that is what we have our people focused on. One of the things that we need to do is not drop the ball. When we dropped the ball heavily, people complained to the public service commission. You can see that our levels are down fundamentally in recent years.

We are also investing significantly in electric system reliability, an additional $50 million this past year. Those investments are really working. I can tell you we are going to accelerate those to bring our system reliability up to really excellent levels.

Moving on to slide 7. In the political regulatory arena I am really pleased with our ongoing interactions with both the Snyder administration and the Michigan Public Service Commission. We continue to play an active role in the policy discussions about Michigan's energy future. I believe those discussions will yield good results.

In parallel with that, we continue to work on our strategy to minimize rates and rate increases in the state. You may have seen that we actually decreased electric rates materially the first of the year on the order of 6% on average for customers. And there is more of that coming as I will discuss later.

We also were a big participant in the, what is known as Pure Michigan Business Connect. It is a program to buy more from Michigan companies. Spent over $800 million with Michigan companies. Exceeded the goal we set with the Governor by 30%. This is a big deal for economic development in the state, something we are really happy to be paired with the state in pursuing.

On the growth front, we invested over $1.5 billion in our two utilities, doubled the rate of depreciation. I will talk about the areas here in a bit. Significant progress on the non-utility front, too. I will talk about some future investments, it is just the highlights from the past year. Big year for investment in our gathering assets around our Bluestone pipeline. It has become a significant new growth area for us. We placed our seventh REF unit, reached an agreement on the eighth and we are working on the ninth. And we also constructed a large new renewable project that will be going operational here over the next week or two.

Then, finally, on the financial front, our operating EPS came in at $4.09. Our guidance midpoint most recently was $4.05. We came into last year with a midpoint guidance of $4.00. So that was a good outcome. We earned our allowed ROE at both utilities, increased the dividends [by] 5.6%. We are upgraded at all three agencies. So from a financial perspective I felt good about the outcomes for the year.

So moving on to slide 8 and the next agenda item, I just said 2013 was a strong year. I enter 2014 with a great deal of confidence as well. I think this can and will be another very good year for the Company. I feel we are extremely well-positioned as we work our way into 2014. And so I want to turn to a look at our future prospects beginning with our earnings guidance for the year on slide 9.

We provided 2014 guidance last fall with a midpoint of $4.27. We have revised that guidance upward. The midpoint of the new guidance is $4.30. Assuming we achieve that, 2014 would be our sixth consecutive year of healthy earnings-per-share growth. We have also been growing our dividend in parallel with the earnings. You can see that dividends have been growing at about a 5.5% clip and we intend to continue to grow dividends in parallel with our earnings as the earnings grow.

Finally as you see there on the bottom of the slide, we are targeting $1 billion in operating earnings by 2018. That is the plan we are working and we are confident we will get there.

Now the environment in Michigan, our home or headquarters state is, I think, supportive of the sort of growth we are talking about.

You look at slide 10. The Michigan economy continues to show good strength. They're just, for example temperature normal electric sales overall last year were up 2%. And if you look at the industrial component of that, industrial sales were up 4%. Temperature normal gas sales were up about 1% and we are seeing rising customer accounts at both utilities. For some years we didn't see that, but we are seeing customer counts rise again. These are all signs of the continuing recovery and continuing growth of Michigan's economy.

As I said earlier, I feel good about the regulatory environment in Michigan. I think it is fair and constructive and I like the way we are working with the administration and the commission to think through good future energy policy for the state. And finally we have a full slate of good investment opportunities in our utilities and in our non-utility businesses, and I am going to turn to those now.

Starting on slide 11 with our electric utility. We are going to invest $6.7 billion. That is the five-year plan and we are going to do that in three areas.

First is base infrastructure. It covers the fundamental of plant reliability, distribution reliability, AMI and so forth. We'll spend $1.1 billion on that in 2014. I guess the one -- the couple of areas I would point out as I mentioned earlier that we are going to go after distribution reliability at an increased pace. We are seeing very good results from our program of investments. We are going to up that. Advanced metering we have accelerated as well as part of our cost reduction efforts. We have seen good efficiencies come out of this so we are accelerating it.

The second major area of spend in the electric utility is generation compliance. We used to call this environmental or emission reductions, but we are seeing some new thanks in this category. So we do still have expenditures on environmental requirements. $280 million this year, but as you look out over the five-year period, we are beginning to see as well some post-Fukushima investments in our nuclear plant that are material over the period. So $700 million in this category over the five-year period.

And then finally new generations. So we are working our way through the 10% renewable energy standard by 2015; we will spend $240 million this year on two wind parks. As we look out a bit longer term on the five-year plan, we are clearly working our way into the renewal of the generation asset base in the state. That renewal is coming via our discussions of state policy. That is one of the big topics in state policy -- where do our generation assets go.

It is also beginning to be a topic of discussion in MISO because MISO is clearly beginning to see the need for new capacity in roughly the 2016 time frame. And that includes new capacity in Michigan. So the combination of the state's discussion of future and MISO's discussion of future needs, I think, has us looking squarely at the future generation in the state in a serious way.

Moving on to slide 12, the next five years is also going to see some significant investment in our gas utility. We will invest $1.2 billion over the next five years. $700 million of that will go into basic infrastructure, so expanding our distribution system and other long-term investments of that nature, [we're up] $150 million in that category this year.

I think you also know that we have a significant program in main renewal and meter move-out. We will spend $500 million in that category over the next five years.

That capital, you will recall, is being covered, is being recovered through an infrastructure recovery mechanism. It is a big program. We have got thousands of miles of distribution main and a lot of it cast iron distribution main that needs to be renewed. $90 million expenditure this year with about $100 million per year average over the next five years.

Now the good news is we are going to be able to invest this capital in our utilities with our customers seeing minimal rate impacts. And slide 13 discusses that.

The investments that I just described in our utilities along with the normal cost pressures that a company like us has to deal with clearly put upward pressure on rates. But we have a significant set of offsets to these pressures, including lower surcharges, our work on structural cost reductions and our ongoing work on continuous improvement. So let me give you a little color on that.

At the electric company, we have, over the course of this year and next year, $650 million of surcharge reductions that will come into play. In fact, roughly $300 million of those came into play at the beginning of this year and those were the reasons for the roughly 6% rate reduction that customers saw.

We will also see an additional $350 million surcharge reduction on the 1st of January next year. That is related to the securitization of our Fermi Power Plant that ends 1st of next year. Those are very material downward revisions to our rates. And as a result, our mantra here at the Company is to stay rate-neutral or as close to rate-neutral as we can over the next five years while we work our way through this big slate of investments in our electric utility.

On the gas front, we foresee a three-year stay out of rate cases. Part of that is our continuous improvement efforts in the gas company. Part of it is the infrastructure recovery mechanism. But when you look at the overall rate of change in rates, we see them at below inflation levels. So, very modest increases in rates in the gas utility over the next five years.

So, turning now from our utilities to our non-utility businesses -- and I am going to be moving to slide 14 -- some of our very best growth opportunities are emerging in our gas storage and pipelines business. So, just a quick reminder on slide 14. This business consists of -- I am roughly working my way from West to East here -- this business for us consists of our position in the Vector Pipeline between Chicago and Dawn, Ontario; our large base of storage assets in Michigan; the Millennium Pipeline in New York, which runs across the top of the Marcellus Shale down into the New York City market; our Bluestone Pipeline built down into the heart of Susquehanna County; our base of Bluestone Gathering assets which we really worked hard on building this past year. And then finally, looping back around the west end of Lake Erie is our proposed NEXUS Pipeline, which I will give you an update on in a minute.

Now, we expect to invest roughly $1 billion to $1.5 billion in this set of assets over the next five years. If you move on to slide 15, I will talk off of this slide to give you an update on how our various investment opportunities are progressing. And I will start with the Bluestone Pipeline.

We put the Bluestone Pipeline into service in late 2012. The Bluestone Pipeline is now absolutely full in both directions, both North and South. We are moving 0.3 BCF which is the design capacity North and South. And given the pace of new production development in and around the pipeline, we are currently working to double the northbound capacity from 0.3 BCF to 0.6 BCF and I will tell you, given the production in the area and the interest of counterparties we fully expect to need another expansion on top of that one in the near future.

The Millennium Pipeline, which has 0.5 BCF design capacity is also fully sold out in both directions. So like Bluestone it has become a high directional pipe. We are moving 0.5 a BCF East and 0.5 BCF West and we are pursuing two expansions of the pipe this year that will expand the capacity 60% or 0.3 BCF. Further we have significant new interest from both LDCs and producers to expand the pipe again. And this LDC interest became intense after the recent events in the Northeast.

We have had a lot of people reaching out to us about the ability to get product delivered to them through the Millennium Pipeline. Our producers also need to get to markets in the East, so some very serious discussions about get another expansion to the Millennium Pipeline underway currently.

So given this, we expect that Millennium will be further expanded after the expansions this year by another 0.25 to 0.5 a BCF to the East for an in-service date of 2016 to 2017.

With respect to our gathering investments for Southwestern Energy around the Bluestone Pipeline in Susquehanna County, Pennsylvania, we began construction work on these assets just a little over a year ago. And in that timeframe, the flow has grown from 0 to now 340 million cubic feet a day from Southwestern's core properties there in Susquehanna County. And we expect significant growth in output from those core properties in 2014.

In addition to that work we are also in serious discussions with southwestern about the development of their properties both Northwest and Northeast of their core positions there.

With respect to the NEXUS Pipeline, which we are developing with Spectra and Enbridge, we are very encouraged by recent discussions on this pipe. So, let me just frame it this way.

Existing pipeline capacity out of the Utica play is contracted out. And the results of the play continue to be very bullish. And as a result, it is clear that there is a need for a major new pipe out of the play and likely more than one. And in our most recent round of discussions with producers there was a noticeable shift in tone and urgency. And the degree of interest has intensified significantly.

I believe that is a result of the pipeline constraints that have been revealed over the past few months. I think it's a result of the strength of the results that producers continue to see. There is a view that the Michigan-Ontario-Chicago markets which could be served by the NEXUS Pipeline are premium markets. There is a sense that that marketplace is large and liquid. That is one of the things producers want is a market that's large and liquid enough that, when a new supply enters it, you don't collapse the price.

I believe producers have concluded that given what they have seen in the marketplace we serve that that large liquid market exists.

There's also the largest base of market area storage in the United States at the end of the NEXUS pipeline, both in Michigan and in Ontario. Finally the pipe has three LDC sponsors who are also committing volume to the pipe.

Well, given all of that, given the discussions we've had we really feel very good about the prospects for NEXUS, and I think stronger than we have at any point in its development.

So, given all of this, we expect earnings from this business to continue to grow at a healthy clip. That is shown on slide 16. Last year, earnings grew from $61 million to $70 million or 15%. We are targeting a move of, at midpoint, another $12 million up or 17% up this year. And as you can see we think we have got a lot of growth wired in for the future and continue to feel that the $130 million number is our target and it is achievable.

We are also seeing really good growth opportunities in our power and industrial business. I will begin that discussion on slide 17.

You will recall this business consists of three business lines. Our Industrial Energy Services business where we serve industrial sites at 37 projects in 11 states. We also have a renewable energy business line in which we have wood-fired plants and landfill gas-fired facilities across 11 states. By the way, all of those are utility contracted.

Then finally a reduced emissions fuel business line. This business line produces a fuel that reduces emissions in coal-fired power plants. We have nine units in five states. Again, we contract with utilities in that business.

A few highlights for the coming year in this business include a 25 megawatt cogeneration plant that is going online at an industrial site in Ohio. So that will add to our industrial services portfolio. We are also in startup mode right now on a roughly 50 megawatt waste wood-fired plant in California. We constructed that over the past year and a half. That will be a nice addition to our renewable business line.

And then finally in the reduced emission fuel business we have our eighth REF unit under construction right now and expect it to be running by midyear and we are in serious discussions with potential host sites for our ninth and final REF unit.

While investments like these are producing healthy earnings growth in the power and industrial business as well, you can see on slide 18 that earnings this past year group from $52 million to $70 million. That is a 35% increase. We have got about a 15% increase targeted for this year moving from $70 million to a midpoint guidance of $80 million and longer term you can see that we expect this business to essentially double. That $155 million remains our target. We have been communicating that number for some time and still feel good about it.

Well, with that as background, I am going to turn things over to Peter Oleksiak to take you through a financial outlook. Peter, over to you.

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

Thanks, Gerry. Good morning, everyone. Before I get into the financial results I would like to give a shout out to Dave Meador. I didn't do the exact count, but this is the first call without Dave for over 15 years. Dave is not going too far and many of you will see him out on the road since we have him slated for several investor conferences and business in 2014.

Moving to the financial update, I'd like to start with slide 20 and the year-end earnings results. For 2013, DTE Energy's operating earnings are $4.09 per share. DTE Electric earned $2.76 per share and DTE Gas earned $0.80 per share. For the non-utility businesses, the gas storage and pipelines and power and industrial project segments each earned $0.40 per share. Energy trading finished the year with a $0.02 per share loss. Finally, corporate and other incurred a loss of $0.25 per share.

Let's move to slide 21 and a summary of the year-over-year performance by segments. DTE Electric's earnings were $1 million higher in 2013 than 2012. For this segment we saw an increase in earnings, due to lower benefit expense, resulting from the planned design changes we implemented in the fourth quarter of 2012 and the first quarter of 2013. We also saw growth in our underlying electric service territory contributing to earnings in 2013. Temperature normalized sales were 2% higher from last year, driven by growth in each of our customer classes.

These improvements in earnings over last year were offset by a return to normal weather and higher storm expense. You recall in 2012 DTE Electric saw $45 million to earnings capabilities due to weather. The higher year-over-year storm expense was driven by two incremental catastrophic storms occurring in the fourth quarter. Our strong financial performance was able to offset these late storms which combined impacted over 500,000 customers and drove nearly $40 million of increased O&M.

Similar to last year, we also took some of the financial strength of our electric utility and reinvested over $20 million after-tax into the core assets and operations and in 2013 at comparable level to what we did in 2012.

For DTE Gas, 2013 operating earnings were $28 million above 2012 with the primary driver being colder than normal weather in 2013, combined with the unusually warm weather in the winter of 2012. Similar to electric utility we took some of the financial strength and invested both the $10 million after-tax directly into the business.

Detailed year-over-year operating earnings [loss] for the utilities are provided in the Appendix. For the non-utilities gas storage and pipelines operating earnings were up $9 million with strong growth in our pipeline assets, particularly offset by lower storage earnings. In particular, we are experiencing increased volumes in revenue at Bluestone and related gathering investments which Gerry touched on earlier.

Power and industrial earnings are also higher for the year by $18 million, driven by increased earnings from our Reduced Emissions Fuel projects and our significant on-site energy project portfolio acquisition that occurred in the fourth quarter of 2012.

Finally, our trading company is down $15 million year over year due to the mix of transactions and associated accounting recognition timing. I will talk more about the operating earnings results of the trading company in a moment when I discuss 2014 guidance.

First I want to talk about the new trading related operating earnings adjustments related to mark-to-market accounting and economic hedges related to pipeline transactions in the Northeast.

As many of you know, the Northeast region of the country experienced significant weather-related gas price increases at the end of last year. Turn to slide 22 as it covers the new operating earnings adjustments that takes out the noise related to the mark-to-market accounting and the economic hedges related to the gas buy sell and transport transactions in the Northeast and provides detail on the associated role on timing.

These transport deals have three components: the buying of gas at a fixed price, the contracted cost of transporting the gas, and the sale of gas at a fixed price. The economics of the transactions are locked in. According to US GAAP the buy and sell ends of the transaction are in mark-to-market accounting where as the middle component, the transport is not. With the well-known year end spike in gas prices in the Northeast, the gas side, sell side of these transactions have significant mark-to-market [unrealized] loss. The majority of this will turn around in the first quarter with the delivery of the underlying gas. The counting of the transaction completely converges to the economics of the transaction once all the gas is delivered.

This type of operating earnings adjustment is not uncommon and is used with other energy companies where hedges have received mark-to-market accounting treatment are uses to cure the economics of a transaction. Without this operating earnings adjustment there would be a large unrealized operating loss in 2013 for our trading segments followed by corresponding large offsetting operating gains in 2014. This adjustment takes out that noise to better reflect the performance of the business.

Slide 23, why don't we -- now we are looking forward to 2014. This slide provides our operating earnings guidance for the year.

As Gerry mentioned we are raising our guidance midpoint from $4.27 per share to $4.30 per share while also narrowing our EPS guidance range from $0.24 to $0.20. Several factors are driving this improvement.

First we are targeting zero equity issuance in 2014 which means we are deploying both over $2 billion in capital this year with no need for additional equity issuance. We are also raising 2014 earnings expectations for DTE Electric and gas storage and pipelines. For our electric utility we see more benefit favorability driven by changes in the discount rates for postretirement expenses.

Moving on to cash flows -- . We are also raising our 2014 (inaudible).

Now I would like to take a moment to discuss our guidance for the trading company. For years our trading company has been a great source of cash for DTE Energy while also providing valuable market insights into our other businesses.

In 2013, energy trading produced $21 million of economic net income with [accounting up written] results of a $3 million loss. We provided in the Appendix our standard reconciliations of economic net income to operating earnings.

As indicated on prior calls our trading company is going through a transitional period where we are moving a portion of this transaction mix from short-term financial transactions that accrue earnings immediately to transactions that are more physical in nature and will incur earnings over several years.

The goal is to create a product mix that is along the streams of earnings and cash. As we move this new mix -- to this new mix, accounting earnings will lag economic contribution of the business similar to what occurred in 2013. Given the strong performance of our utilities in growth-oriented non-utility businesses we have the opportunity to have 2014 guidance not depend on operating income contributions from our trading business.

Accordingly we have set the energy trading earnings guidance for 2014 at 0. A new way to think about our 5% to 6% earnings goal is to focus on our growth businesses or operating earnings before energy trading contributions. We do expect future year earnings contribution from our trading segment, but it will be additive to our 5% to 6% goal.

Now I am moving on to cash flows on slide 24. In 2013 our cash from operations was $2.2 billion, the same level as 2012 and $300 million higher than our original guidance. Free cash flows improved $200 million over last year from reduced capital spending at our non-utilities, primarily due to the acquisition of the on-site energy portfolio in 2012. The strength in cash in 2013 was a major enabler in our ability to target $0 equity issuance in 2014.

Slide 25 provides our cash guidance for 2014. We see lower cash from operations due to lower utility surcharge collections in 2013 and higher plan and contributions to our employee benefit plans in 2014. Capital expenditures increased year over year with higher environmental and renewable energy spending at DTE Electric and spending our growth projects for the non-utilities.

On the next slide, you can see that our balance sheet remains strong with leverage and FFO metrics in line with our targets. As I mentioned before we are targeting $0 equity issuances in 2014.

We anticipate annual equity issuances -- equity issuances of $200 million to $300 million in 2015 and 2016. As Gerry mentioned in our 2013 accomplishments our financial success and solid risk profile were recognized with credit upgrades at all three rating agencies. Additionally in -- and generated 2014 Moody's upgraded DTE Energy and its two utilities. Maintaining our strong credit rating is fundamental to our business strategy.

Finally and let me wrap up on slide 27 and then we'll take your questions. Our investment thesis and shareholder value creation approach has been consistent year after year delivering EPS growth of 5% to 6% while providing attractive dividends and maintaining a strong balance sheet. This approach has delivered 7% growth since 2008 and, when coupled with our dividends, which has grown 5.4% over the last three years it provides total return in excess of our targeted 9% to 10% total shareholder return.

Our utility growth that Gerry laid out for you is occurring in a growing Michigan economy and a very constructive regulatory environment. We know we have to earn this constructive regulatory environment every day. Our work in operational excellence, cost management and customer satisfaction will do both good things for our customers and help make sure we keep that constructive regulation.

As Gerry outlined upfront on the call, we have got some very solid earning opportunities at our non-utility businesses. Those give us a nice lift to the growth opportunities that we have at our utilities and provide more certainty to our 5% to 6% longer term earnings growth targets.

And with that, I will wrap it up and thank you for joining us. Noah, we will be now open up for the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jonathan Arnold, Deutsche Bank.

Jonathan Arnold - *Deutsche Bank - Analyst*

Good morning. Quick question on -- and I apologize if you just went over this, I had to get off the call for a second when you were on the topic. On the way you are going to present the trading business going forward, is this exclusion of mark-to-market on these particular contracts going to be a feature of how you present your numbers in the future or is that some kind of a sort of materiality threshold that will govern that?

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

Yes, this will be something -- this is how we will be presenting it in the future as we move more to these fiscal type of deals, these derivative accounting treatments will be occurring, [some of these types of] deals, you'll see this going forward.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

It may not be as material, Jonathan. We don't expect to get this sort of weather every year.

Jonathan Arnold - *Deutsche Bank - Analyst*

Right, right. No, absolutely, so you are going to -- this is how you will do it going forward and the difference in the annual guidance is basically because some of the reversal occurs in 2015.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Yes, we -- well, a couple of things. We -- this is how we will do it because it is frankly kind of silly to have a fully hedged transaction produce a big down and a big up. You could have to flip through a big up and a big down and none of it means anything, so from an accounting perspective it is just a lot clearer to do it this way.

And then in terms of the earnings level, I think what Peter was saying is we had got a modest loss in trading last year. We look at our earnings goals for this year, can fully achieve that with our asset-based businesses. Our guidance is based on that, the growth out of our asset-based businesses and, frankly, in the future would like to keep the guidance for our trading modest.

We expect to earn profits from the business over time. But I think you all could just look at those as additive cash flow to what we're doing in the other business.

Jonathan Arnold - *Deutsche Bank - Analyst*

Thanks, Gerry. Then on the gas pipeline and storage business you talked a lot about incremental opportunities. Does your -- are you still in a mode of you like the things in front of you and you want to pursue those on a standalone basis? Or is the dynamic in that business increasingly -- does it make it more interesting to try and look for a partnership or something that could step up the scale of what you are doing there?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Well, we always be open to partnerships that were a good strategic fit. So I won't say that we are not open to or interested in that. We would be, but the current pace and level of activity around Millennium, Bluestone and our gathering in Pennsylvania and the degree of interest, the intensified interest in NEXUS, has plenty in front of our team right now to execute and put in place.

So we are not feeling a need for it to grow the business the way we talked about.

Jonathan Arnold - *Deutsche Bank - Analyst*

All right, thank you.

Operator

Andrew Weisel, Macquarie Capital.

Andrew Weisel - *Macquarie Capital - Analyst*

Good morning, everyone. First is an easy one. Am I reading it correctly that the guidance for 2014 in gas does not reflect any of the weather that we have seen year-to-date?

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

Yes. We -- getting a little feedback here on the phones so I hope it is coming clear to you. We have not reflected any of the year-over-year weather in our guidance. Weather can change as you move through the year across both the electric and the gas utilities. Obviously it has been a positive for both our gas and electric businesses to start the year, but we will just watch that as the year goes on. Gives us a strong starting point and will help us offset any bumps we run into if we do.

Andrew Weisel - *Macquarie Capital - Analyst*

Okay, great. Next question on the storage and pipelines business. You sound more enthusiastic, it sounds like you have got this new third expansion from Millennium and the enthusiasm from Southwestern and the LDCs seem higher than what you talked about in the past.

My question is when you showed the five-year outlook to 2018, there is no change. So at the very least why haven't you moved some of the white box down into the more specific project contributions? And what would it take to make you increase those targets?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Well, that is a good question. I think really we evaluate that. We haven't evaluated the mix in the past month I would say, but as some of these things become firm, so we pull an expansion in that was not a part of the mix previously and it becomes firm. Or [access] fee just becomes that much clearer. I think you will see us shifting the mix of to be determined and what we think we have locked down. But you're right we haven't changed that since we showed it to you a few months ago.

The -- you are also right that the tenor and the feel of things have changed over the past few months. I have always said that the gas storage and pipeline business, the nature of the conversations can flip on you in a hurry and people can go from, well, that is interesting and let's talk about it to why can't you give me that tomorrow. And it can happen in the course of a month or two.

And the reason that it happens is that those companies are evaluating their capital investment plans, their strategic interests, and they're evaluating the marketplace. And the combination of people thinking about their strategies at year end and the incredible strain on the gas pipeline system that emerged late last year and early this year has made an awful lot of people in the industry sit up and realize that we are going to need a lot of new assets to get all this gas to market. That, combined with the strength of the Utica Shale, when we are talking NEXUS and the just incredible price blowout in the Northeast when we are talking about Millennium has got people anxious to move.

Andrew Weisel - *Macquarie Capital - Analyst*

Okay, great. And did I hear you say that in addition to the obvious demand side interest the producers seem happier with what they are seeing in terms of results than what they had said in the past? Is that -- did I hear you right?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

In the Utica in particular. I think the results in the Susquehanna County in Pennsylvania are well known as continuing to be very strong. Southwestern is the best spokesperson for that. Since it is really them and other producers who are drilling the wells, but they continue to have very good results.

In the Utica, yes. I think we do continue to see strong, bullish -- whatever you want to call it -- results. And you hear producers talking about the scale of what is going to happen there, and the scale is large and it will be constrained by infrastructure to get the gas to market. So they are now transitioning from evaluating their resource to believing that and now they have got to get it to market.

The other thing you hear them thinking about is what market. And there are clearly places to take it that are better than others. A lot of it has been taken South to this point, but the basis to Michigan and Ontario if you watched in the recent year was strong and those are growing markets. The demand for gas in Ontario is growing; same is true in Michigan, particularly as we transition our generation fleet. And then our Vector pipeline reaches into Chicago, Wisconsin, and so forth. So, I think there is a lot of interest in reaching those markets with Utica gas.

Andrew Weisel - *Macquarie Capital - Analyst*

Very good. Then one last one, if I can. When I compare the 2013 actual CapEx at the utilities versus the guidance that you had put out most recently, it was a little bit light by about $140 million. Just wondering, is that a timing issue? Is there anything in terms of cost savings that you identified from the capital side and how does that tie in? Is that the reason that you were able to offset the equity you need this year?

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

The reduction actually is a combination of continuous improvement in our environmental capital spend as well as timing related to that. And I would say that plus our strength in operating cash flow, actually, is really a key enabler in us to be able to take the equity issuance down to $0.

Andrew Weisel - *Macquarie Capital - Analyst*

Great. Thank you very much.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

We had cash flow strength on a lot of fronts this past year when you looked at it and that became clear as last year played out, that the need for equity this year was going to go away. So, the $300 million or so that we had planned we just took off the table and we will be able to keep our credit metrics right where we want them without issuing.

Andrew Weisel - *Macquarie Capital - Analyst*

Perfect. Thank you.

Operator

Stephen Fleishman, Wolfe Research.

Stephen Fleishman - *Wolfe Research - Analyst*

Good morning. Just to kind of clarify slide 15 and slide 16 together on gas storage and pipelines. The Bluestone lateral expansion and the Millennium II expansion, those are in the core growth and NEXUS and then the other gathering pipeline expansion, Millennium III, those are all new project -- those would all be in that new project box or upside to that?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Yes, I would say that NEXUS we talked about as being in the new project box (inaudible) timeframe. And then some of the things that we consider possible, but not yet locked in like some of these expansions that we are beginning to see come into our window we also get some of those in the new product development.

Stephen Fleishman - *Wolfe Research - Analyst*

Okay. And --

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

One of the things we will do for you guys is give you an update on what we think is in the [lock to bound] portion of these and what we perceive to be in new project development. Next time we are out we will give you a good clear delineation of those things.

Stephen Fleishman - *Wolfe Research - Analyst*

Okay and then just any update on the -- what to expect on Michigan legislation this year and the like on the electric reforms. How do you think that process is going?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

I would say a couple of things. One is that the -- this is going to be a year primarily for discussion of future policy. It is clear that there is a lot of thinking going on about future generation policy. I mentioned that earlier.

But people also want to understand the future renewables that program is playing out in the state as of 2015, and there's diverse thinking about what the future should be. And the same is true for energy efficiency.

So I foresee this year presently being focused on the administration, the Commission, and a number of other parties trying to reach some common ground on those topics.

You mentioned the choice issue. I don't think the administration or the Public Service Commission see expanded choice as a stable base to build the future of Michigan's energy infrastructure around. The Governor is pretty clear. He sees it as a free option kind of like having the access to your fixed-rate mortgage and your variable rate mortgage both whenever you want it.

It is just not reality. And when you try to build an important industry around a structure that is unstable you get bad results. I will tell you watching deregulated markets try to deal with the stresses that emerged this year and the stresses that are coming as markets get tighter, they had better watch it. Those markets are in trouble and I think an increasing number of observers believe that. I don't think Michigan has an appetite for stepping into that.

So for example, there is a bill that has been introduced into the House on deregulation. We see those pop up every now and then. I don't think there is serious interest in that and I don't think it will clear Committee.

Stephen Fleishman - *Wolfe Research - Analyst*

Great. Thank you very much.

Operator

Matt Tucker, KeyBanc Capital Markets.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

Good morning and congratulations on a nice year.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Thank you.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

First question, could you comment on the extent to which the decision to bring the energy trading guidance to 0 is driven by change in market conditions versus change in strategy that you describe versus just wanting to be conservative by [kind of pointing out] the equation?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Just to go through last year. Last year our economic earnings at trading were $21 million. So as we -- economic earnings and cash in this business, this business over the past decade produced about $0.5 billion in cash over the past five years about [300]? Yes.

So that what we find over time is the economic earnings converge with cash one-to-one. So economic earnings this past year were $21 million the accounting earnings were minus 3. We have seen the environment produce fewer opportunities so if you look back over time our economic earnings used to be larger. It is an opportunity for us when we look at the balance of the Company and see it -- those utilities and non-utility businesses able to support very healthy EPS growth. It is an opportunity for us to take trading down to a 0 level. Not premise our earnings growth on it and essentially say to you, hey, if it produces some upside in the coming years, great. We don't intend for it to be a big piece of the picture as I said, a couple of percent, and that is the way we would like to posture it heading forward.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

So I guess, longer term then, is there a new normal earnings run rate that you would expect post-2014?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

It is probably going -- not probably, it will be over time in line with the economic earnings which in recent years have been in that $20 million range.

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

$20 million to $25 million.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

$20 million to $25 million. But how that comes into and out of accounting varies because of the accounting rules. So I think what we are really looking to do is take the up and down noise out of that, give you -- I guess it is right to say conservative guidance there because we don't want your perception of our earnings hinging on that. I would like it to be focused on the utilities and our non-utility businesses. If we get some earnings contribution from trading, great.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

Got it, thanks. And then on O&M, at the utilities, in 2013 you got a weather benefit at both and you used that opportunity to utilize your [lean invest] strategy and wrap up O&M. Can you talk directionally about O&M in 2014? And if you continue to see a weather benefit, will more of that start to flow to the bottom line?

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

We targeted in our operating groups in our planning cycle for flat O&Ms. So we take the reinvestment as incremental, we take that off when we do our planning for the following year so now we are planning on flat O&M.

Now having said that, for instance we have a strong start year and the weather, we know there's a lot of year left, but that continues on, we will take some of that and reinvest that back into our utilities. We really are focused on keeping our utility strong for the long term, especially for both utilities are in a stay out cycle from the rate preceding and we would like to take that opportunity where we can to take extra revenue and put it back in our core assets of those utilities.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

A follow-up to that. Can you quantify how much of the 2013 O&M you viewed as being above the base level?

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

Between the two utilities combined it is about $50 million pretax. So it is roughly -- call it around $20 million at the gas utility, $30 million at the electric utility.

Matt Tucker - *KeyBanc Capital Markets - Analyst*

Thanks a lot.

Operator

Michael Weinstein, UBS.

Michael Weinstein - *UBS - Analyst*

Could you talk about your impact of interest rates on pension expense, benefit expense? I think you had mentioned earlier that that was expected to decline in the fourth quarter and how it will affect 2014 as well.

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

Yes. For 2014 the pension expense favorability was roughly $15 million. We had baked that into guidance. And that is one if you look at the DTE Electric guidance versus (inaudible) outlook we have increased guidance and it is related to the discount rate change.

Michael Weinstein - *UBS - Analyst*

Great. And just curious, the news on the Utica play sounds very good, very positive. I don't think there is a lot of growth there and I am wondering if at some point you might consider alternative financing structures or if the need for equity might get -- if the growth rate is so fast, so high that interest is intense, will you have to consider alternative methods of financing fast growth?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Well, we have got it modeled in our five year plan now and it is not pressuring our equity. In fact these businesses tend to be strong contributors to your FFO to debt. They throw up a lot of cash. So they have a -- they improve your credit metrics as you build them out as long as you do it well. But our projects in this area have been credit strengtheners in recent years.

In terms of MLP, we have said pretty consistently that we don't think we have the scale right now. We have got up lot of growth out in front of us. We don't want to be pursuing growth or get into the pursuit of growth or acquisitions to feed an MLP. The day may come when we have accumulated the scale that alternative structure would make sense so I think what we see in the near term is the pursuit of what we think is a good slate of organic growth opportunities that should have that business growing at a 15% plus clip. And over time, as we watch the scale, we will ask the question again.

Michael Weinstein - *UBS - Analyst*

Okay, thank you very much.

Operator

Andy Levi, Avon Capital.

Andy Levi - *Avon Capital - Analyst*

I am all set, guys. Thank you very much.

Operator

Paul Patterson, Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

Good morning. Well, my questions have been answered. Just the power industrials, it seemed that there was a little bit of a scale down on the renewable projects in the industrial ones on terms of the numbers. I know that the profitability didn't change or anything, just wondering did anything -- has anything changed or is that just sort of optimization and why did they not, I guess, impact earnings or the earnings guidance?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

When you -- so maybe you could clarify your question when you say there has been a scaledown.

Paul Patterson - *Glenrock Associates - Analyst*

Well, it looks like the number of projects from -- at least what I remember in EEI were a little bit higher. I think renewable was 27 now they are 25. Industrial was 42 now I have 33.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Yes.

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

Slide 18 kind of lays it out, reduced emissions fuel. We have been saying for the last several years it will be at $60 million to $70 million. Now we are saying $70 million. And the renewable energy is at $35 million targeted for 2018.

Paul Patterson - *Glenrock Associates - Analyst*

Right, no, I know the earnings -- there's no changing in the earnings, but I just said the projects themselves (multiple speakers). It just seemed that there was a change in them I was just wondering if there was any (multiple speakers).

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

No, there is no -- there is nothing fundamental in the project counts. If they changed it may be just the way they were categorized or aggregated. Yes.

Paul Patterson - *Glenrock Associates - Analyst*

Okay.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Anastasia is nodding her head that is (multiple speakers)

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

(multiple speakers) more grouping of contracts and projects.

Paul Patterson - *Glenrock Associates - Analyst*

Okay.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Nothing material there.

Paul Patterson - *Glenrock Associates - Analyst*

Okay and then going back to that the slide where we talked about the Millennium project, the math so to speak. Is Millennium III in there? Is that -- I mean, just wondering is Millennium is part of that or is that -- where would that show up, I guess?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

It's in the solid.

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

It is in the solid. (inaudible) [40 million].

Paul Patterson - *Glenrock Associates - Analyst*

Okay, so I mean when you talk about what has happened with respect to the increased interest because of the volatility and everything we've seen, how should we think about the potential expansion beyond that solid blue line or is there any?

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

When you say the solid blue, you mean the solid gold there on 16? (technical difficulty)

Paul Patterson - *Glenrock Associates - Analyst*

(laughter) Well, yes when I am looking at -- I guess I am looking at slide 14. Just wondering where, what kind of opportunities you guys see in terms of the bottlenecks and everything that apparently are causing some concern obviously on the part of customers. You have been mentioning that people are now more interested, I am just wondering where that might show up.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Okay, so on Millennium I think we always thought there would be expansions, multiple expansions and those are included in the solid colors on the following slide but I think both the pace and the potential scale of those expansions may play out to be larger than we thought and there may be follow-on expansions that come after that.

The other thing I would say is that the gathering around Bluestone, it has grown quickly this past year. We have made major investments there. We will again this year, but it is clear that the scale and pace of what Southwestern is pursuing there is ramping up. It is a great resource for them and we are a partner for them there. So we are very focused on doing well for them and continuing to grow there.

And then NEXUS, we have always said NEXUS is the next platform that will play out in the end of the five-year period. As I tried to make clear we have always felt good about it because the fundamentals seemed right to us, but it has been a real strong uptick in perception from counterparties over the past couple of months.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, great. Thanks a lot.

Operator

And this concludes the question-and-answer session. I would now like to turn the call back over to Gerry Anderson for any closing remarks.

Gerry Anderson - *DTE Energy Company - Chairman and CEO*

Well, I would just like to reiterate that we feel we had a really good year this past year and I come into 2014 with a high degree of confidence that we can deliver you another good year. We look forward to keeping you abreast of developments as things emerge this year. Thanks for joining us this morning and we look forward to seeing you all out on the road. Take care.

Operator

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