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DTE Energy Co. (DTE)

Q4 2023 Earnings Call
Operator: Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy Fourth Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the call over to Barbara Tuckfield, Director of Investor Relations. Please go ahead.

Barbara Tuckfield
Director-Investor Relations, DTE Energy Co.

Thank you; and good morning, everyone. Before we get started, I would like to remind you to read the Safe Harbor statement on page 2 of the presentation, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix.

With us this morning are Jerry Norcia, Chairman and CEO; and Dave Ruud, Executive Vice President and CFO. And now, I'll turn it over to Jerry to start the call this morning.

Gerardo Norcia
Chairman & Chief Executive Officer, DTE Energy Co.

Thanks, Barbara; and good morning, everyone, and thanks for joining us. I hope everyone is having a healthy and safe year so far. This morning, I will give you a recap of the accomplishments we achieved in 2023 and provide highlights on how we are well-positioned for 2024 and beyond. Then we'll provide a financial update and wrap things up before we take your questions.

As you know, 2023 was a challenging year for DTE as we faced significant headwinds from an unprecedented combination of weather and storm activity. I am very proud that our company came together to face these headwinds and execute on our plan that offset the majority of the challenges. We achieved operating earnings per share of $5.73 in 2023. This was a result of overcoming $300 million of the approximately $400 million of headwinds that we faced. In the appendix, we included a summary of the headwinds and the one-time actions we took in 2023.

As I said during the year, the fact that we were able to offset most of the challenges we faced while maintaining service excellence is a clear indication of our highly engaged team and our commitment to operating excellence. I couldn't be prouder of our team's effort in 2023, and our commitment to deliver for all of our stakeholders will continue into 2024 and beyond.

This engagement of our team at DTE was recognized with our eleventh consecutive Gallup Great Workplace Award. DTE was also recognized as one of Metro Detroit's best and brightest companies to work for, as well as one of Time Magazine's Best Companies for Future Leaders. We continue to address our customers' most vital needs by investing heavily in our utilities, to rebuild our aging infrastructure, improve reliability and support the transition to cleaner generation.
There have been a number of developments that support our customer-focused investment agenda, including the filing of our Distribution Grid Plan that provides a roadmap to improve reliability and automation of our system; and our Integrated Resource Plan that outlines our investment in Michigan’s cleaner energy future while remaining very focused on customer affordability. In 2023, we made strides on our reliability improvement goals. I’ll go over this in more detail on the next slide, but I can tell you that our efforts in this area are working. In circuits where upgrades were completed in the first half of 2023, customers experienced 33% fewer outages during the second half of the year compared to the second half of 2022.

Also supporting our investment agenda is the constructive Electric rate case order we received in December. During the first half of this year, we expect to file our next Electric rate case, which will underpin the continued investments in system reliability, grid modernization and cleaner generation. We also recently filed a rate case at DTE Gas to support important investments necessary to continue to renew our gas infrastructure, which will minimize leaks and reduce costs. So, you can see that we continue to invest heavily in our utilities in 2023. DTE Electric invested $3.1 billion on continued improvements in reliability and cleaner energy generation for our customers. While DTE Gas invested nearly $750 million on infrastructure and main renewal improvements. Reinvesting in utility infrastructure to drive reliability improvements far exceeds cash generated from operations, demonstrating our commitment to improving reliability for our customers.

Another significant event in 2023 was the passing of new clean energy legislation in Michigan that the Governor signed in November. This energy policy creates a very clear roadmap for the development of additional solar, wind and storage assets. That is generally consistent with the accelerated renewables build and cleaner generation path that we laid out in our IRP filing. This investment is supported by the Inflation Reduction Act that includes provisions, which reduce the cost of investments in our system, and we pass all of these benefits along to our customers.

Our effort to maintain affordability for our customers has been demonstrated over the last four years. Based on the outcome of our last rate order, the average annual growth of our residential electric bill is just over 1% since 2020 compared to a national average annual increase of over 6%. This is supported by a $300 million reduction in our fuel and purchase power cost that went into effect last December to lower customer bills. Through this significant reduction, along with our long history of cost savings through continuous improvement, we will continue to effectively manage affordability for our customers.

On the community front, DTE was honored to be named to the Civic 50 for the sixth consecutive year. This award, presented by Points of Light, recognizes the most community-minded companies in the nation. I am proud that our team continues to put the communities we serve at the forefront each and every day in our decision-making.

We have a robust investment agenda of $25 billion over the next five years, which is a $2 billion increase over the prior plan; and we have a 10-year capital plan of over $50 billion. 95% of our capital will be invested at our two utilities. Investments in our non-utility businesses are strategically focused on our customers’ needs and aligned with our clean energy initiatives.

Our 2024 operating EPS guidance midpoint provides 7% growth from our 2023 original guidance midpoint. Our long-term operating EPS growth remains at 6% to 8%, with 2023 original guidance as the base of that growth. And our 2024 annualized dividend of $4.08 per share is consistent with our practice of growing dividends in line with our operating EPS. Importantly, we will continue to have a strong balance sheet and investment-grade credit ratings to support this customer-focused capital investment plan.
Now let’s turn to slide 5. At DTE Electric, our significant capital investment plan is focused on building the grid of the future for our customers, and supporting the transition to cleaner generation. Our recently filed Distribution Grid Plan outlines our path to build the grid of the future. This plan includes the transition to a smart grid with full automation within five years, resulting in less frequent and shorter outages for our customers. We are also investing $9 billion on distribution infrastructure over the next five years, targeting reliability improvements of more than 60%.

During 2023, DTE Electric focused on improving the reliability of over 400 of our most challenging circuits, including trimming more than 5,000 miles of trees, installing more than 200 automated reclosers, and maintaining our extensive network of electric infrastructure, including replacing pole top equipment in over 3,500 utility poles. We are continuing to accelerate our tree trimming program. We are also continuing our accelerated preventative maintenance by upgrading more than 10,000 miles of infrastructure, with over 1,300 miles upgraded in 2023. Finally, we are accelerating the rebuild of our 4.8kV system and pursuing undergrounding.

We did experience a large storm in January, and our team came together to achieve one of the fastest restorations for a storm of this size. The $2 billion increase in our DTE Electric five-year plan is driven by investment in cleaner generation that is supported by the IRP, the recently passed energy legislation and our voluntary renewables program. Accelerating this investment provides more affordable energy for customers over the long term. Our voluntary renewables program is still exceeding our high expectations. As I mentioned last year, the National Renewable Energy Laboratory recognized DTE as having the largest green tariff program in the country, fulfilling more load under contracted subscriptions than any other program.

Now let’s turn to slide 6. At DTE Gas, we are planning to invest $3.7 billion over the next five years to upgrade and replace our aging infrastructure. Over the years, we have made significant progress and recovered investment through our Infrastructure Recovery Mechanism. Since the program began, we have renewed over 1,700 main miles and plan to complete over 200 more miles in 2024. Our Natural Gas Balance program also continues to grow, with over 13,000 customers currently subscribed. The program offers ways for customers to manage their carbon footprint through carbon offsets with our forestry partners in Northern Michigan as well as renewable natural gas.

And now let’s discuss the opportunities at DTE Vantage on slide 7. At DTE Vantage, we are planning to invest between $1 billion to $1.5 billion over the next five years. We continue to advance custom energy solutions, RNG and carbon capture and sequestration projects. One project that I will highlight is the expansion of a long-term fixed fee custom energy solutions agreement with Ford Motor Company to build, own and operate and maintain the central utility plant and distribution infrastructure serving its facility in Tennessee. In addition to the utility generation infrastructure, we will also provide distribution of hot and chilled water, steam, natural gas and electricity, domestic and sanitary water, along with HVAC equipment and a wastewater treatment facility. Projects that are organic expansions like this one are attractive to us, given the long-term relationships, strong sites and the utility like structure. This project, combined with other projects, also position us for future growth.

Our development pipeline at Vantage remains strong. The IRA improves decarbonization opportunities as enhanced tax credits allow our projects to be more economic, including carbon capture, RNG and combined heat and power projects. The RNG market growth continues and is supported by the Federal Renewable Fuel Standard and California’s Low Carbon Fuel Standard.

With that, I’ll turn it over to Dave to give you a financial update. Dave, over to you.
David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Thanks, Jerry. Good morning, everyone. Let me start on slide 8 to review our 2023 financial results. Operating earnings for the year were $1.2 billion. As Jerry mentioned, we achieved operating earnings per share of $5.73 in 2023. This was achieved after experiencing and overcoming additional headwinds with December being one of the warmest on record. You can find a detailed breakdown of EPS by segment, including our reconciliation to GAAP reported earnings in the appendix.

I’ll start the review at the top of the page with our utilities. DTE Electric earnings were $791 million for the year. This is $170 million lower than 2022. The main drivers of the earnings variance was warmer winter weather, cooler summer weather and higher storm expenses. There were also higher rate base costs, lower residential sales relative to 2022 with the continuation of people returning to work, and accelerated deferred tax amortization in 2022. This was all offset by the one-time O&M cost reductions that we implemented in 2023.

Moving on to DTE Gas. Operating earnings were $22 million higher than 2022. The earnings variance was driven by one-time O&M cost reductions and IRM revenue in 2023, which was offset by warmer weather and higher rate base costs.

Let’s move to DTE Vantage on the third row. Operating earnings were $153 million for 2023. This is a $60 million increase from 2022, primarily due to new RNG projects and steel-related earnings that were mainly a result of opportunistic byproduct sales.

On the next row, you can see Energy Trading finished the year with earnings of $105 million. As I discussed through the year, we experienced favorability in 2023 due to the robust contracted premiums in our physical power portfolio. A portion of this favorability from these contracted positions is expected to continue into 2024.

Finally, Corporate & Other was unfavorable by $15 million year-over-year primarily due to interest expense. Again, I’m extremely proud of our team. We overcame the majority of the unprecedented headwinds that we faced in 2023, and we did this without sacrificing reliability and our deep commitment to customer service. Overall, DTE earned $5.73 per share in 2023.

Let’s turn to slide 9. Our 2024 operating EPS guidance midpoint is $6.69 per share, which provides 7% growth over our 2023 original guidance midpoint. And we continue to target 6% to 8% long-term growth from our 2023 original guidance.

In 2024, DTE Electric growth will be driven by the investments in grid reliability and cleaner generation. DTE Gas will see continued customer-focused investments in main renewal and other infrastructure improvements that enhance performance of our transmission, compression, distribution and storage assets and support decarbonization. At DTE Vantage, 2024 earnings are largely driven by RNG projects and new custom energy solutions projects to serve as a base for growth going forward. At Energy Trading, you can see we are guiding to an earnings level that is slightly higher than the 2023 original guidance. This is due to the sustained robust margins that we have contracted and hedged in our structured physical power portfolio that are continuing into 2024. At Corporate & Other, the change is driven by higher interest expense and one-time tax items.

Our long-term EPS growth rate of 6% to 8% from the original 2023 midpoint of guidance demonstrates our confidence in maintaining the growth trajectory we have achieved over many years.
Let's move to slide 10 to highlight our strong balance sheet and credit profile. Going forward, we will continue to invest heavily into our utilities. The majority of this investment is funded by our strong cash from operations, which is shown on our cash and capital guidance slide in the appendix. Due to the strong cash flows, DTE has minimal equity issuances in our plan, targeting annual issuances of 0 to $100 million through 2026. Our 6% to 8% long-term growth plan includes debt refinancings and new issuances, and we continue to manage these future issuances through hedging and other opportunities. In 2023, we also extended our revolving credit facility with all 21 banks out to 2028. We continue to focus on maintaining our strong investment-grade credit rating and strong balance sheet metrics. We target an FFO to debt ratio of 15% to 16%.

Let me wrap up on slide 11 and then we open the line for questions. Our team continues our commitment to deliver for all of our stakeholders. Our robust capital plan supports our customers as we execute on the critical investments that we need to make to improve reliability and transition to cleaner generation while focusing on customer affordability. The 2024 operating EPS midpoint provides 7% growth over the 2023 original guidance midpoint, and we continue to target long-term operating EPS growth of 6% to 8%. Our dividend growth remains strong as we continue to target dividend increases in line with operating EPS growth. DTE continues to be well-positioned to deliver the premium total shareholder returns that our investors have come to expect, with a strong balance sheet that supports our future capital investment plan.

With that, I thank you for joining us today. And we can open the line for questions.

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. [Operator Instructions] Your first question comes from the line of Shar Pourreza with Guggenheim Partners. Please go ahead.

**Shahriar Pourreza**  
*Analyst, Guggenheim Partners*

**Q**  
Hey guys. Good morning.

**Gerardo Norcia**  
*Chairman & Chief Executive Officer, DTE Energy Co.*

**A**  
Good morning, Shar.

**David Ruud**  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

**A**  
Hey Shar.

**Shahriar Pourreza**  
*Analyst, Guggenheim Partners*

**Q**  
Good morning. Obviously, just real quick, CapEx is moving higher and the credit metrics are strong. And obviously, you're highlighting that you have minimal equity needs in the current plan. I guess, Dave, can you just touch on funding sort of incremental spending opportunities, maybe using some rule of thumb as we think about the percentage of equity needed to fund every new dollar of CapEx above this base plan? Maybe the answer is zero. And there's been obviously some mentions of an RNG sale in the media. Just given sort of the cash versus earnings attributes of that business, is that an accretive recycling opportunity? Thanks.
Hey good morning. Thanks for taking my question.

Analyst, Barclays

Nicholas Campanella

Operator

Thanks, Shar.

Chairman & Chief Executive Officer, DTE Energy Co.

Gerardo Norcia

Fantastic. Appreciate it, guys. See point.

Analyst, Guggenheim Partners

Shahriar Pourreza

Sure. So, if you're referring to a potential electric rate case, we're looking to make a filing late in the first quarter, early second quarter. I would say most of that filing will be about the capital investments we're making to upgrade the grid and transition to cleaner energy. So, again, it'll be a CapEx-driven filing. That's what we expect at this point.

Chairman & Chief Executive Officer, DTE Energy Co.

Gerardo Norcia

Perfect. And then just lastly on just the regulatory, maybe just expectations for 2024. You have a notice of a potential filing with the MPSC before March 1. I guess, can you just elaborate on that filing? I guess, what do you see different from the prior case, which wasn't easy to get through, especially as we're kind of thinking about the IRM, sales forecast, rate design, et cetera? Thanks.

Analyst, Guggenheim Partners

Shahriar Pourreza

Fantastic. Appreciate it, guys. See you real soon. Thanks.

Chairman & Chief Executive Officer, DTE Energy Co.

Gerardo Norcia

Thanks, Shar.

Operator: Your next question comes from the line of Nick Campanella with Barclays. Please go ahead.

Analyst, Barclays Capital, Inc.

Nicholas Campanella

Hey good morning. Thanks for taking my question.
Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Good morning, Nick.

Nicholas Campanella  
*Analyst, Barclays Capital, Inc.*

Morning.

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Hey Nick.

Nicholas Campanella  
*Analyst, Barclays Capital, Inc.*

I guess, just to follow up on the Vantage portfolio optimization comments. Just if you don't have cash needs in the current plan and there is an opportunity to do something, just how do we think about those use of proceeds?

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

If we did pursue some form of optimization, obviously, the cash proceeds would go to offsetting debt issuances and even potentially the repurchase of some equity. But as I said, there's really nothing imminent at this point in time.

Nicholas Campanella  
*Analyst, Barclays Capital, Inc.*

Appreciate that. Okay. And then, I guess, just as you kind of wrap in the Michigan legislation to your outlook, you're probably looking at changes to the supply portfolio, can you just remind us what your philosophy is in terms of owning these assets versus doing PPAs? Are you going to target to do a mix or do you want to do all renewable ownership? That would be helpful.

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

So, we certainly like to own assets because we think it's much more accretive both for our customers in terms of providing lower cost. I think we've been able to show over and over is that ownership provides lower cost to our customers and also it provides greater benefit to our investors in terms of EPS growth. So, we prefer to own. I think you'll see in the IRP settlement, we did agree to share some ownership, and it breaks out somewhere between two-thirds and one-third ownership between – us owning two-thirds and others owning one-third in the IRP piece. I think the legislation also did not talk about ownership, which we – and was neutral on that point. So, we are pleased with that. And in addition to that, it also provided for compensation mechanism for PPAs that would give us some upside as we sign PPAs.

Nicholas Campanella  
*Analyst, Barclays Capital, Inc.*

All right. Thanks so much for the time today.
David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Thanks, Nick.

Operator: Your next question comes from the line of Jeremy Tonet with JPMorgan. Please go ahead.

Jeremy Tonet  
*Analyst, JPMorgan Securities LLC*

Hi. Good morning.

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Hey Jeremy.

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Hi Jeremy.

Jeremy Tonet  
*Analyst, JPMorgan Securities LLC*

I just wanted to dive into the capital program a little bit more, if we could, looking at the $25 billion five-year plan as you laid out there. Just wondering if you could peel back the onion a little bit more on the $2 billion increase in cleaner generation at DTE Electric? Just wondering what specific projects, opportunities, how you think about that new capital?

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Yeah. Jeremy, if you'll recall when we updated, we didn't provide an update at EEI because we're waiting the outcome of rate case to make sure that our capital plans were supported, and which that happened. And so, when we updated in December, it really reflected the IRP settlement and the new legislation were both in flight. And so, I would say the combination of those two events – significant events created incremental opportunity in our clean generation space. It accelerated our journey in terms of building out renewables as well as battery system. So that's really what drove the increase.

Jeremy Tonet  
*Analyst, JPMorgan Securities LLC*

Got it. That's helpful. And then just thinking about the capital program, I guess, broader and if you think about the Vantage, the non-regulated side. Just wondering what do you think about, I guess, run rate expectations for CapEx there. Did some capital move from Vantage into regulated? Just trying to get a sense for how much capital could go there over time? How that could potentially shift depending on what regulated opportunities you see in front of you?
Yeah. Right now, we're showing a $1 billion to $1.5 billion investment over the next five years and which is pretty consistent with our prior five-year forecast. So, we really haven't made any significant changes there just yet.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

And we will see that can be a little lumpy depending on the projects that come into. So the other project that Jerry was talking about in the prepared remarks, that one will have a little more capital associated with it in 2024. So, the $1 billion, $1.5 billion can be a little bit lumpy as it comes in.

Jeremy Tonet  
Analyst, JPMorgan Securities LLC

Got it. That's very helpful. And then just wanted to see, I guess, as always, the CCS, if you could dive in a little bit more in, I guess, how do you think about timeline for when that could become more real, I guess, as far as capital is moving in there and as far as the -- I guess, the regulatory environment being supportive enough where you feel comfortable to kind of move forward there?

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

I would say that in terms of carbon capture and storage, we are well-advanced on three projects, and we're finalizing our arrangements with counterparties and some conditions precedent there to make sure that we got a viable transaction. But I would say it's feeling better than 50/50 that we're going to start executing on some capital there in that new business line. So, pretty exciting. They're small projects. Each of the three are anywhere between $50 million to $100 million. Pretty simple projects that doesn't require a lot of pipeline. Pretty short pipelines. Most of the pipelines are right on the property of the customer, so is the well. So, we're deep into it, and we'll continue to give you updates on that. But it's a nice synergy with our utility -- electric utility because, as we think about future power plants and using natural gas, we're going to need to capture the carbon in storage. So I think dipping our toes into this new business line creates value for investors, but also creates value for future utility investments that we'll need to make.

Jeremy Tonet  
Analyst, JPMorgan Securities LLC

Got it. Very helpful. One last quick one, if I could. Just as far as refinancing new bonds, how much of the, I guess, the [ph] open rate (00:29:00) exposure on refinancings has been hedged at this point and derisked?

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah. So, as you saw, we have about $2 billion of refinancings coming up at the end of the year this year. And the majority of that is hedged. $1.7 billion has been hedged of that at rates that are a little bit better than what we're seeing out there in the market now. So, we continue to like our overall debt portfolio and with the rates we're getting that's all included within our five-year plan and consistent with our strong investment-grade credit rating and our 15% to 16% FFO to debt that allows us to issue minimal equity within our plan. I know it's a little more of an answer than you were asking, but we're in a good place with that.

Jeremy Tonet  
Analyst, JPMorgan Securities LLC

That's all very, very helpful, all those details. Thank you very much for taking my questions.
Operator: Your next question comes from the line of Durgesh Chopra with Evercore ISI. Please go ahead.

Durgesh Chopra
Analyst, Evercore ISI

Hey team. Good morning. Thank you for giving me...

Gerardo Norcia
Chairman & Chief Executive Officer, DTE Energy Co.

Good morning. Hey Durgesh.

David Ruud
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Good morning.

Durgesh Chopra
Analyst, Evercore ISI

Good morning, Jerry and Dave. Just maybe, can you comment on the financial implications of the January storm? That's part one. And then part two, as we think about the rest of the year, what level of contingency you have in the plan as it relates to worse than expected storms, bad weather, similar to what we had last year? So, those two things, please. Thank you.

Gerardo Norcia
Chairman & Chief Executive Officer, DTE Energy Co.

Yeah. Just let me take the storm expense. We certainly have increased our storm expense in our planning process as we've seen storms increase over time and the cost that that brings. So we feel pretty comfortable about the plan that we're carrying right now. And as you know, we also carry one standard deviation of weather. For example, in the winter, warmer than normal weather and/or in a summer on standard deviation of cooler than normal weather. So, that's how we're planning. And at this point in time, we feel pretty good about our plan. We're moving along and right on track. I think the storm that came in January consumed some of the storm expense budget. But of course, as you would expect, we're working to replenish some of that so that we can carry a full summer storm budget. So, that's really where we're at with that.

Durgesh Chopra
Analyst, Evercore ISI

Okay. Perfect. That's really all I had. Thank you very much.

David Ruud
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Thanks, Durgesh.

Operator: Your next question comes from line of David Arcaro with Morgan Stanley. Please go ahead.
David Arcaro  
*Analyst, Morgan Stanley & Co. LLC*

Hey thanks. Good morning.

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Good morning.

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Good morning.

David Arcaro  
*Analyst, Morgan Stanley & Co. LLC*

Let's see. You've got a renewable energy plan filing coming later this year I think. Wondering if that could be an opportunity to reassess again and potentially increase the renewables in your outlook?

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Well, certainly, our voluntary renewable plan is progressing really well, David. I'd just tell you that we've got 2,500 megawatts subscribed in our voluntary program and 2,600 megawatts in our five-year plan. So, it's likely that over time it will increase. Obviously, our next filing will address the next couple years of in-service requirements for our large industrial customers that we signed up and commercial customers. So, it could potentially be upside to our plan in the future as we continue to update our plan. So, hopefully, that helps.

David Arcaro  
*Analyst, Morgan Stanley & Co. LLC*

Got it. Yeah, that's helpful. And I was wondering, does your current plan kind of fully embed the opportunities arising from the legislation as you're thinking about maybe beyond the renewable energy targets, but also considering energy efficiency and the FCM and the potential upside on PPA contracts?

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

I would say that our current plan does anticipate incremental build-outs for the IRP and legislation. So I told you our five-year plan for voluntary is 2,600 megawatts. We have an additional 1,800 megawatts that comes in as part of the IRP in that five-year plan. So, that's all built in to the $7 billion clean generation number that you see on our slides. In terms of PPAs, we're going to have to continually assess what value that – incremental value that'll bring us as we go along here, but it could bring incremental value.

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Yeah. And then as we look out past that, we have to file a new IRP that'll take into account this legislation even more. And so that'll give us an opportunity to bring on some more capital in maybe near the end of the five-year plan, but really probably a little bit past that just more opportunity to do this clean energy generation.
Hi Andrew.

Hi. First question is on the $300 million of lower fuel cost savings, very impressive number. Can you just give a little more detail? First of all, is that a year-over-year reduction? And how much of that relates to the fuel cost itself, the natural gas prices being lower than 2022 levels? And as a follow-up, just quickly, do you have an early read in 2024 in terms of forward curves?

Yeah. The $300 million reduction in 2023, that was really the recovery of the over-collection that was in 2022. So, in 2023, we were kind of on our plan and just recovering what we needed to recover into – recovering from 2022 and 2023 and then comes off our books for 2024. So far for this year, there's a little bit under recovery left. But we're forecasting things to be pretty flat with our plan for this year.

And then the Gas business, we're fully recovered there. We're in a good position there.
Andrew Weisel  
Analyst, Scotiabank

Great. And then one more, if I could, to sort of ask you to elaborate on the non-utility CapEx. So I'm going to ask similar questions in a different way. Last year, the CapEx was $167 million. That was well below guidance of $300 million to $400 million. And now you're guiding to $550 million to $650 million for 2024. Can you just walk us through that a little bit? I heard you mention there's some lumpiness, maybe certain investments were deferred. I'm guessing some of the high spending this year is related to that Ford announcement. I guess, just overall, how confident are you in that 2024 number, given how high it is?

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah. Good question, Andrew. That capital investment really follows the development projects that we do within that business. And last year, we did three RNG projects and one custom energy solutions project, but a smaller one, and that allows us to continue the growth we need in that business and meet our targets. This year, you're right, the Ford project that we're doing that we talked about in the prepared remarks makes us confident that we're going to invest this. We talked about this a year or so ago. We had about $200 million of investment planned for this year from that. We've expanded that deal with them and that's going to make up a good portion of the capital investment on non-utility this year. Still work in other projects as well, but it's really that custom energy solutions project with Ford that's going to take up a big chunk of that capital investment in 2024.

Andrew Weisel  
Analyst, Scotiabank

Okay. Thank you very much.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah.

Operator: Your next question comes from the line of Michael Sullivan with Wolfe Research. Please go ahead.

Michael P. Sullivan  
Analyst, Wolfe Research LLC

Hey everyone. Good morning.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Good morning.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Hey Michael.

Michael P. Sullivan  
Analyst, Wolfe Research LLC
Hey guys. Maybe just wanted to ask on the trading business that did really well in 2023 and I think, Dave, you mentioned some of that flows through into 2024. But just how conservative do you feel that range is for 2024? And is this like a new normal that could extend even beyond 2024 based on what you're seeing?

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.
Yeah, Michael. You're right. We did have some really nice favorability in 2023. And again, this is due to the premiums we get on the structured physical power portfolio. So, it's all contracted and hedged. Just had really nice premiums in 2023. As we said, we expect some of that to continue on into 2024, probably not to the same extent as 2023, but some of those contracts, the one and two years. So, we see some of them coming into 2024 as well. So, going forward, we'll have to see what happens. We're not guiding to anything higher than that. We get the same level of contracts as a business we've been in for a long time. We get the same level of contracts. We've just seen really good premiums in 2023 and we're just seeing those come back down. So, it's probably not something we're going to guide to going forward, but it is good favorability and exact same risk profile that we've always had.

Michael P. Sullivan  
Analyst, Wolfe Research LLC
Okay. Great. Appreciate the color. And then just wanted to pivot to the PBR proceeding at the Michigan PSC and just what are your guys thoughts on kind of where that stands and how that ultimately plays out?

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.
Michael, it's moving in the right direction in terms of sort of narrowing the variables that we'd be looking at for PBR. So we felt that that was quite constructive in the latest release from the commission on that process. We still feel that it'll be a symmetrical sort of benefit and incentive to perform. So we feel good about that. That's still holding together and we expect that there's really no timeline stipulated for the conclusion of the process. So we're thinking sometime between the middle of the year to early next year is when this process will conclude. But we're feeling that it'll be a productive process and a well-balanced process.

Michael P. Sullivan  
Analyst, Wolfe Research LLC
Okay. That's super helpful. Thanks, guys.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.
Thank you.

Operator: Your next question comes from the line of Sophie Karp with KeyBanc. Please go ahead.

Sophie Karp  
Analyst, KeyBanc Capital Markets, Inc.
Hi. Good morning and thank you for...
Good morning.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

...taking my questions. Hi.

Gerardo Norcia
Chairman & Chief Executive Officer, DTE Energy Co.

Good morning, Sophie.

David Ruud
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Good morning.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Just a couple of questions here. Hi. I guess, staying on the Energy Trading business topic, right, could you elaborate a little more on what market conditions are enabling this relative strength? And what should we watch for in terms of this potentially reversing in the future or continuing for longer, if you will?

David Ruud
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah. These are markets where – we bid into utilities within PJM and New England mainly and to serve their load. And as we bid in, we get contracts, and those contracts will have premiums associated with them. We just saw really nice premiums in 2023, some of which carry on into 2024. So, as we go through 2024, we'll be able to let you know more about what we see for future years on those premiums. And then the rest of that business is really gas physical business, which again is contracted and hedged. So, it's really just kind of success of our trading group in setting up these structured, physical and hedged positions that is making to have these successful years.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Got it. Got it. And how much visibility do you have in that? It sounds like maybe less than 12 months out because you would be updating us as you go.

David Ruud
Chief Financial Officer & Executive Vice President, DTE Energy Co.

That's right. Most of these contracts are one year. Some go a little longer, but most of them are for one year and then kind of see where they come and again the next year. That's why we continue to guide to – usually to $25 million. We went to $35 million because we see that, but we're not pushing to something higher than that in the future years.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Got it. Got it. And I just want to be clear on what you're saying about your capital plan. How much of the new energy law opportunities is reflected? And it sounds like what you're saying is that you have reflected
opportunities that would be presented by the new energy law in Michigan in your plan already. So, the incremental opportunities stemming from this legislation should be fairly limited. Am I hearing this correctly?

**Gerardo Norcia**  
*Chairman & Chief Executive Officer, DTE Energy Co.*

I would say, in the first five years, that's correct, Sophie. The IRP and the legislation is reflected in the five-year plan and we'll continue to update that as we go forward. Beyond the five-year plan, there is some further acceleration that we could see, but we'll continue to update that each and every year, hopefully in November – between November and the end of the year.

**Sophie Karp**  
*Analyst, KeyBanc Capital Markets, Inc.*

Thank you so much.

**Gerardo Norcia**  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Thank you.

**Sophie Karp**  
*Analyst, KeyBanc Capital Markets, Inc.*

Appreciate it.

**David Ruud**  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Thanks.

**Operator**: Your next question comes from the line of Julien Dumoulin-Smith with Bank of America. Please go ahead.

**Julien Dumoulin-Smith**  
*Analyst, BofA Securities, Inc.*

Excellent. And just good morning, guys. Thank you very much. Maybe just to pick up on the last question with...

**Gerardo Norcia**  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Good morning, Julien.

**Julien Dumoulin-Smith**  
*Analyst, BofA Securities, Inc.*

Hey. Morning. Just with respect to the last question there on the what's reflected in the plan. I just want to clarify on the PPA ownership piece or the PPA earnings piece, the compensation mechanism there. That is reflected for the one-third piece in the IRP settlement and therefore in your outlook rate. So, again, as you talk about the different pieces, the [ph] substantive (00:43:22) upside from the legislation, really it moves beyond the five-year period at this point. Just on the compensation specifically.
Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Yeah. So, again, the ownership component is reflected in our capital plan. The $7 billion component of clean energy generation, that's in our plan. The financial compensation mechanism, we'll have to see what levels we sign the PPAs at. Obviously, as you know, it's a...

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Dynamic.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

It's tied to the price that we sign the PPAs for. So, as we sign those, we'll continue to update our plan, but it will provide some incremental value in our plan as we go forward, if that's what you're asking.

Julien Dumoulin-Smith  
Analyst, BofA Securities, Inc.

Yeah. Right. So, the FCM is included at least preliminarily to the extent to which that might need to be updated later.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah, there's thoughts – we have something in there for now. But as we as we sign PPAs, there should be some upside in the plan to that what we have in there now.

Julien Dumoulin-Smith  
Analyst, BofA Securities, Inc.

Got it. All right. Thank you for clarifying. I know it was a bit back and forth for you a little bit. All right. Excellent. And then just coming back to the top of the roster on the Q&A. Real quickly. On the RNG conversation briefly. Sounds like that was non-committal. And frankly, it seems like opportunistic [indiscernible] which you might see something of interest to you given where your balance sheet sits. Is there something about like resolution and IRS regs on RNG and how that's treated under IRA that's driving some decision tree here for you guys. I just want to make sure I heard that right that it doesn't seem like that's a particularly pressing subject for you guys.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Yeah. I would say that it's not imminent, some sort of optimization of our Vantage portfolio. We like the returns. We like the cash flows from it. And actually, the IRA, Inflation Reduction Act has been quite beneficial to that business from an ITC, investment tax credit perspective. It's made projects more attractive and higher return. And we're also seeing positive movement in some of the markets, like the federal market moved in a very positive direction and the Renewable Fuel Standard that is. And in California, the CARB, the California Air Resources Board, is looking to tighten up the carbon intensity targets. So I think, as that plays out, that will provide even more upside in those markets as we see them today.
Julien Dumoulin-Smith  
*Analyst, BofA Securities, Inc.*

All right. Excellent. Right. So, it doesn't sound like you're too worried about the way the IRS regs came out late in terms of being able to...

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Dave, any...?

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

We are monitoring that. We're commenting. But we're not overly concerned. We don't think that it's really consistent with what the congressional intent was there either. So, we're continuing to watch and monitor and comment, but not overly concerned.

Julien Dumoulin-Smith  
*Analyst, BofA Securities, Inc.*


Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Thank you, Julien.

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Thanks, Julien.

**Operator:** Your next question comes from the line of Gregg Orrill with UBS. Please go ahead.

Gregg Orrill  
*Analyst, UBS Securities LLC*

Yeah. Thanks for the question. Just maybe...

Gerardo Norcia  
*Chairman & Chief Executive Officer, DTE Energy Co.*

Hey Gregg.

David Ruud  
*Chief Financial Officer & Executive Vice President, DTE Energy Co.*

Hi Gregg.

Gregg Orrill  
*Analyst, UBS Securities LLC*

Hey. Just following up on the RNG. Are you able to provide how much that contributed in 2023 and also the steel business?
David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah. We did see some good upside from the RNG because we brought in three new projects in 2022 and in 2023. And associated with some of that, there’s some tax credits that come with that that helped out in 2023. The steel business was the other part that gave us that favorability that we saw in 2023. Probably little over half of what we saw there. And that was due to some opportunistic sales of some our byproducts, some of the other products we’re making within that business and some other one-time things that we’ve done there. So, it was, yeah, some good one-time opportunity that we saw in the steel business and the RNG development.

Gregg Orrill  
Analyst, UBS Securities LLC

And how are you thinking about the returns in the RNG business, just how they’re trending?

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yes. We have noticed it’s gotten a little more competitive, as more people have come in. We used to say we got high double-digit unlevered after-tax returns. We’re still seeing good returns. Particularly where we see it is in our conversion projects. We have projects that now make power that we can convert to making RNG. And so, in those projects, we continue to see very strong returns. And then there’s still a good development pipeline that has strong returns as well.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Yeah. We’re still seeing unlevered returns in, I would say, north of 10% unlevered after-tax or in the teens — low teens.

Gregg Orrill  
Analyst, UBS Securities LLC

Okay. Thank you.

Operator: Your next question comes from the line of Anthony Crowdell with Mizuho. Please go ahead.

Anthony Crowdell  
Analyst, Mizuho Securities USA LLC

Good morning, Jerry. Good morning, Dave.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Good morning, Anthony.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Hey Anthony.
Anthony Crowdell  
Analyst, Mizuho Securities USA LLC

Hey. Just two quick ones. Most of them have been already answered my questions. But just I think you talked about a potential rate filing late first quarter, early second quarter electric filing. Just do you expand the undergrounding program in that filing or, as much as you’d like to disclose, thoughts on expanding the undergrounding in the filing?

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Anthony, we put 5 miles underground in last year in 2023 and it went really well. And what we're doing is proposing that we continue to do more. This is going to take a few years to ramp, Anthony, as we kind of work with our commission. We actually had the commission staff out looking at some of the undergrounding that we did in the last few days. And so, I think there's a process here to make sure that we're working together with our commission to come up with a reasonable plan.

I would say the key part of it is we need to ensure that on an NPV basis, undergrounding is going to be at least equivalent or better than putting it up in the air. We've got 19,000 miles of infrastructure to replace that's very old. It's a 4.8kV system, so a huge opportunity from a customer perspective to improve infrastructure for the future. And we'd like to put as much of that underground as we can, but we're going have to prove out the concept.

So, we're in the early stages of proving it out to ourselves and then secondly to our commission. So, that's where we're at with it. I think it's going to take a few years before we can ramp it, but we feel pretty good about how smoothly the first 5 miles went and it's all-directional bore through very highly congested urban areas. So, very cool project. More to come on that.

Anthony Crowdell  
Analyst, Mizuho Securities USA LLC

Great. And then just a quick follow-up. I guess, I'll throw it to you, Dave. Or Jerry, if you want to take this, it's fine. Just I guess, on a credit metric basis, where did you end 2023? And I think your target range is 15% to 16%. When do you believe you'll hit that target range?

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yeah. We did end 2023 right around 15%, Anthony. And as we look through the five-year plan, we stay within that range throughout the five-year plan that we talked about even with the minimal equity that we're issuing.

Anthony Crowdell  
Analyst, Mizuho Securities USA LLC

Great. Thanks for taking my questions and congrats on a good quarter.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Thanks.
Thank you, Anthony.

Operator: Your next question comes from the line of Ryan Levine with Citi. Please go ahead. Excuse me, Mr. Ryan Levine, your line is open. Please go ahead with your question.

Ryan Levine  
Analyst, Citigroup Global Markets, Inc.

Hi guys. Yeah. So, good morning. I was hoping to follow up on the...

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Good morning.

Ryan Levine  
Analyst, Citigroup Global Markets, Inc.

...utility ownership first PPA and some of the generation assets. Is your plan largely solidified at that point or is there opportunity to convert some of the owned assets into PPAs given the incentives that the law provides?

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Ryan, thanks for the question. I'll let Dave sort of elaborate, but I'll start by saying that we prefer to own the assets for really two reasons. One is, if you look at the value to our customers, it’s much more affordable for our customers for us to own the assets. And then secondly, for our investors, it provides a much greater significant EPS growth opportunity if we own. So, we don’t see converting any current ownership to PPAs. Dave, did you want to add to that?

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

No, that's exactly right. It's better for our customers. We've gotten really good at developing these projects. And we're the leading renewable developer in the state and continue to do it at what we see is the lowest price, which is kind of borne out through the auctions that we're in. So, we think it's better for our customers. And then on an EPS basis, investing the capital is better for our shareholders as well. So I don't know that we'll be converting any. We'll do what we need to do, but – and the FCM, it's great. It's great addition for the PPAs that we do do, but it's still much better for our customers and much better value if we continue to develop these.

Ryan Levine  
Analyst, Citigroup Global Markets, Inc.

Okay. And are you still pursuing opportunities to build dedicated pipelines to chemical plants in your service territory, but that you maybe have been pursuing in the last few quarters?

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Are you referring to carbon capture and storage, Ryan, when you...
Ryan Levine  
Analyst, Citigroup Global Markets, Inc.

Yeah. More carbon dedicated pipes, correct.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Yes, we are. We've got three transactions that are well-advanced with large carbon dioxide producers. And we're looking to capture that's CO2 sourced and stored underground and essentially on their property. These are very short pipelines, couple of thousand feet each, less than a mile. So, we're looking to finalize those arrangements and also satisfy some of the technical conditions precedent that we want to accomplish before we get too far into that business.

Ryan Levine  
Analyst, Citigroup Global Markets, Inc.

Okay. Great. Thanks for answering.

David Ruud  
Chief Financial Officer & Executive Vice President, DTE Energy Co.

Thanks, Ryan.

Operator: I would now like to turn the call back over to Jerry Norcia for closing remarks. Please go ahead.

Gerardo Norcia  
Chairman & Chief Executive Officer, DTE Energy Co.

Well, thank you, everyone, for joining us today. I'll just close by saying we're feeling great about 2024 and also our long-term plan as well as our position for future years. Have a great morning. And you stay healthy and safe.

Operator: Ladies and gentlemen, that concludes today's call. Thank you all for joining. And you may now disconnect your lines.
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