

CMS Energy Corporation NYSE:CMS

FY 2023 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ4 2023-				-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	GUIDANCE	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.04	1.05	0.60	▲0.96	1.05	3.10	3.11	▲0.32	3.34
Revenue (mm)	2601.47	1950.00	-	▼(25.04 %)	2399.40	8406.32	7462.00	▼(11.23 %)	8812.00

Currency: USD
Consensus as of Jan-31-2024 7:02 AM GMT

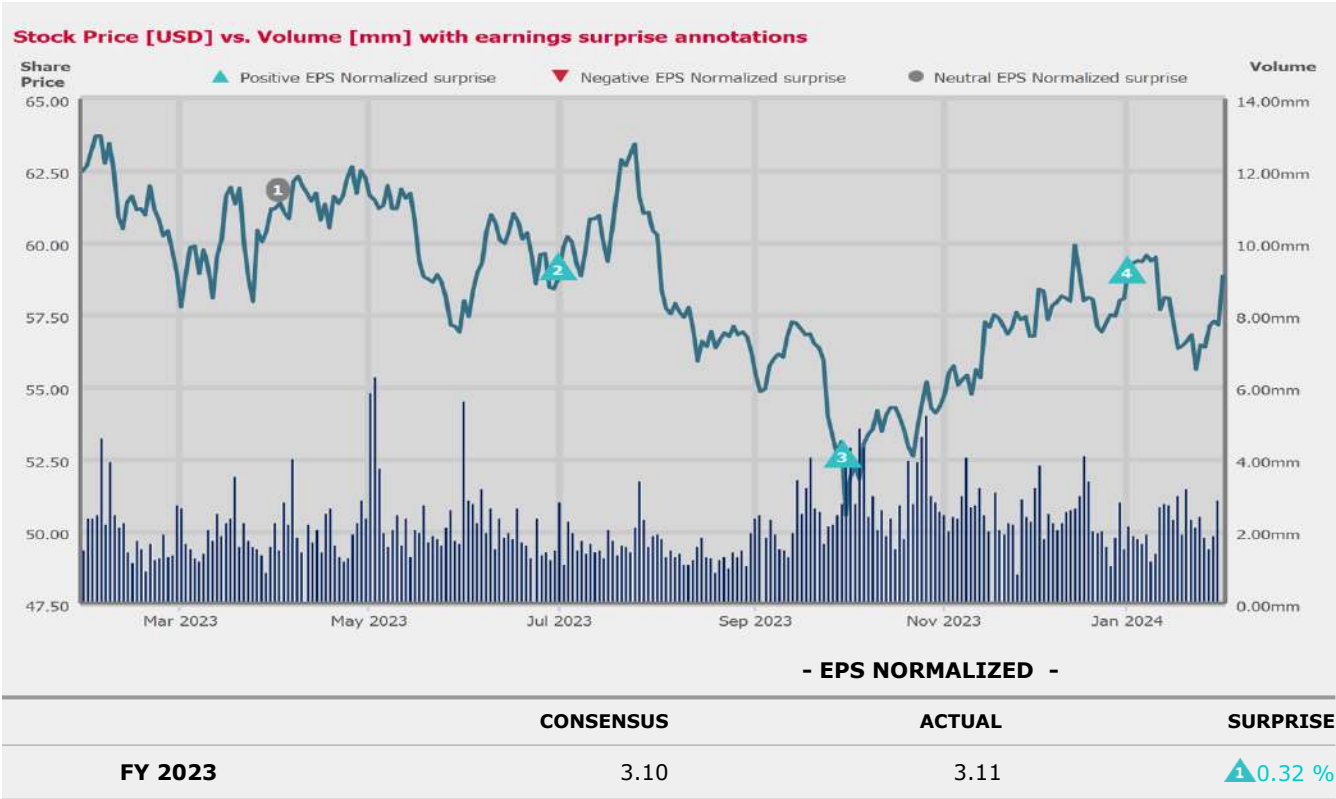


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Call Participants

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Presentation

Operator

Good morning, everyone, and welcome to the CMS Energy 2023 Year-end Results. The earnings news release issued earlier today and the presentation used in this webcast are available on CMS Energy's website in the Investor Relations section. This call is being recorded.

[Operator Instructions]

Just a reminder, there will be a brief broadcast of this conference call today, beginning at 12:00 p.m. Eastern Time running through February 8. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I would like to turn the call over to Mr. Srikanth Maddipati, Treasurer and Vice President of Finance and Investor Relations.

Srikanth Maddipati

Former Vice President of Investor Relations & Finance

Thank you, Emily. Good morning, everyone, and thank you for joining us today. With me are Garrick Rochow, President and Chief Executive Officer; and Rejji Hayes, Executive Vice President and Chief Financial Officer.

This presentation contains forward-looking statements, which are subject to risks and uncertainties. Please refer to our SEC filings for more information regarding the risks and other factors that could cause our actual results to differ materially. This presentation also includes non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measure are included in the appendix and posted on our website.

As some of you may know, this will be my last earnings call as I have transitioned to a new role in the company responsible for our electric supply and the implementation of the new energy law. While I'm excited for my new role and responsibility, I will miss working with all of you in the investment community so closely. I want to thank you for the support you've all given me and this company.

Jason Shore, a 25-year veteran at CMS, has been named Treasurer and VP of Investor Relations. As I hand over the baton, I'm confident in Jason and our very experienced IR team.

And now I'll turn the call over to Garrick.

Garrick J. Rochow

President, CEO & Director

Thank you, Sri, and thank you, everyone, for joining us today. Before I get started, I want to thank Sri for his leadership in the finance area, and I look forward to his continued growth and impact as he takes on this important role in electric supply, where he'll lead critical filings like our Renewable Energy plan and Integrated Resource plan, which I will discuss later in this call.

We have a deep bench of talent at CMS Energy and it is critically important that we develop our leaders in key areas of the business, continuing to strengthen the bench, build dexterity and provide challenging growth opportunities. I know both Sri and Jason will make a big impact in their new roles. I've shared before on these calls, this isn't our first rodeo. The CMS team delivers now 21 years of exceptional performance. I am proud to share with you the highlights of the year, and I am proud of this team.

You will see the numbers and our operational highlights, 2023, was an incredible year. We met and faced challenges that tested our team, and we rose to the occasion. First, let's talk about the weather. The 2022, 2023 winter was in the top 10 warmest on record. And then there was summer, when much of the world saw warmer temperatures, our summer influenced by El Nino conditions was cooler than normal. And then December 2023, the second warmest December on record, add to that record storm activity within

our service territory. To say the least, it was a challenging year. Despite severe storms and unfavorable weather, we delivered and offset nearly \$300 million of weather-related financial headwinds, serving our customers with heat and light and keeping our financial commitments for our investors.

This world-class team comes together, and we do what we say we will do year in and year out, no excuses, just results. As I said earlier, I'm proud of the team at CMS Energy. There are a number of great things we delivered in the year, even more than are represented on Slide 4.

In the interest of time, I want to hit on just a few. I want to highlight the Freedom Award from the Secretary of Defense and why this is so special. This is the highest recognition a company can receive for supporting their employees who serve in the Guard and Reserve. The nomination was submitted by one of our employees and demonstrates the commitment of our entire company. This is an important part of our culture to support and care for our people and to honor our coworkers who serve our customers and our country.

We continue our focus on leading the clean energy transformation. In 2023, we retired over 500 megawatts of coal, further reducing our carbon footprint. Alongside these retirements, we ensured resource adequacy with the acquisition of the 1.2-gigawatt Covert natural gas generating station and brought online our 201 megawatt Heartland wind farm. This thoughtful transition ensures customer reliability as we move our portfolio from coal to clean.

I also want to give a shoutout to our small but important North Star Clean Energy team. We performed well in 2023, exceeding our expectations for the year, completing the Newport solar project and demonstrating strong operational performance at Dearborn Industrial Generation, DIG. Another solid year of execution at CMS Energy across the triple bottom line, delivering industry-leading, sustainable premium growth.

In 2023, Michigan also passed new energy legislation, starting the course for cleaner energy in Michigan, while maintaining resource adequacy, customer affordability and strengthening our financial plan. This legislation speaks to the constructive nature of Michigan, provides more incentives to grow our clean energy portfolio, furthering investment opportunities with increased certainty of recovery.

Now it's still early days. We're evaluating all aspects of the new law, including the strategic advantage of owning versus contracting supply, the increased incentive on PPAs. So what makes sense -- what makes the most sense for us and for our customers, the law provides a lot of flexibility and options, which is important. You'll see this play out in a couple of upcoming filings. I want to draw your attention to the renewable energy plan.

This is not a new filing but becomes a more important input in the integrated resource plan. The renewable energy plan will detail our path to meet the 60% renewable portfolio standard by 2035.

As you might imagine, this work is underway. We plan to file in the second half of the year. Following our renewable energy plan filing, our next 20-year Integrated Resource Plan is due in 2027. Together, the renewable energy plan and integrated resource plan will align our supply resources to deliver cost competitive, cleaner and reliable energy as we target net-zero.

They also provide important transparency and certainty as we advance the business forward with investments in renewables and clean energy. Michigan's Energy Law continues to support its strong regulatory environment in needed customer investment. While the recent legislation provides opportunities while our updated renewable energy plan, regulatory calendar is fairly routine in 2024. Our electric case -- our electric rate case continues toward a constructive outcome.

We've seen positive indicators with key stakeholder support for recovery of customer investments, and important investment mechanisms such as the IRM and our undergrounding pilot.

We expect an order from the commission on or before March 1. We filed our gas rate case in mid-December with an ask of \$136 million with a 10.25% ROE and a 51.5% equity ratio. The request aligns with needed investment outlined in our 10-year natural gas delivery plan. We expect an order before the end of the year.

On Slide 7, we've highlighted our new 5-year \$17 billion utility customer investment plan, which supports approximately 7.5% rate base growth through 2028. You will note that about 40% of our customer investment opportunities support renewable generation, grid modernization and main and service replacement on our gas business, which are critical as we lead the clean energy transformation. The plan also includes an increased investment in the electric distribution system to improve reliability and resiliency for our customers.

We also have growth drivers outside of traditional rate base. These include adders built into legislation for incentives, our energy efficiency programs and the financial compensation mechanism we earn on PPAs that I mentioned earlier. We also expect incremental earnings provided by our nonutility business, NorthStar Clean Energy, as they see attractive pricing from capacity and energy sold at DIG. It's important to note we have a long and robust runway of additional investment opportunities, both within and beyond the 5-year window.

As an example, we've incorporated a little less than half of the incremental \$3 billion of customer investments associated with our electric reliability roadmap. We've also not yet included the customer investments associated with the new energy law. These will be included in our renewable energy plan filing and will provide more opportunities for investment.

I feel good about our 5-year utility investment plan. It is focused on our customers. It positions the business for continued success and delivers for all stakeholders. With that, I'll conclude with the 2023 results and long-term outlook before passing it over to Rejji who will cover the financials in more detail. 2023, no excuses, not weather, not storms, just results. We delivered adjusted earnings per share of \$3.11 toward the high end of our guidance range. I'm also pleased to share that we are raising our 2024 adjusted full year EPS guidance up \$0.02 to \$3.29 to \$3.35 from \$3.27 to \$3.33 per share, compounding off of 2023 actual results.

Let me repeat, compounding off of actuals, that is a differentiator in this sector. We continue to expect to be toward the high end of our 2024 guidance range, which points to our confidence as we start the year. Furthermore, the CMS Energy Board of Directors recently approved a dividend increase, to \$2.06 per share for 2024. Longer term, we continue to guide toward the high end of our adjusted EPS growth range of 6% to 8%, which implies and includes 7%, up to 8%.

Our dividend policy remains unchanged. We continue to grow the dividend. You'll see that we are targeting a dividend payout ratio of about 60% over time. Finally, we remain confident in our plan for 2024 and beyond, given our long-standing ability to manage the work and consistently deliver industry-leading growth.

With that, I'll hand the call over to Rejji.

Rejji P. Hayes
Executive VP & CFO

Thank you, Garrick, and good morning, everyone.

As Garrick highlighted, we delivered strong financial performance in 2023 with adjusted net income of \$907 million, which translates to \$3.11 per share towards the high end of our guidance range. The key drivers of our 2023 financial performance included strong cost performance throughout the organization, fueled by the CE Way, a solid beat at NorthStar, and a variety of non-operational countermeasures such as liability management and tax planning, which more than offset the significant weather-related headwinds experienced throughout the year. And to further underscore the magnitude of cost performance delivered by our workforce, our fourth quarter operational operating and maintenance (or "O&M" expense), exclusive of service restoration and vegetation management, was approximately 25% below the comparable period in 2022 and over 20% below our 5-year average for this cost category- a truly impressive achievement.

All in, we managed to offset nearly \$300 million of weather-related financial headwinds without compromising our operational commitments to our customers and the communities we serve. At CMS, we've had plenty of years of adversity followed by impressive operational and financial feats. But I can't

recall one quite like 2023, a year in which our workforce personified grit and displayed that perennial will to deliver for all stakeholders.

To elaborate on the strength of our financial performance in 2023. On Slide 10, you'll note that we met or exceeded the vast majority of our key financial objectives for the year. From a financing perspective, we successfully settled \$178 million in equity forward contracts in November and settled the remaining roughly \$265 million in forwards in January. As a reminder, these forwards are priced at levels favorable to our planning assumptions. The only financial target missed in 2023 was related to our customer investment plan for utility, which was budgeted for \$3.7 billion. We ended the year below that at \$3.3 billion, primarily due to siting and permitting delays at select solar projects.

As mentioned in the past, we fully intend to build out all of the solar projects approved in our IRP and voluntary green pricing program. And with the Michigan renewable energy siting reform bill passed last fall, we should see better progress here going forward.

Moving to our 2024 EPS guidance, on Slide 11, we are raising our 2024 adjusted earnings guidance range to \$3.29 to \$3.35 per share from \$3.27 to \$3.33 per share, as Garrick noted, with continued confidence toward the high end of the range. As you can see in the segment details, our EPS growth will primarily be driven by the Utility providing \$3.74 to \$3.80 of adjusted earnings, the details of which I'll cover on the next slide.

At NorthStar, we're assuming EPS contribution of \$0.16 to \$0.18, which reflects strong underlying performance, primarily at DIG, and ongoing contribution from our renewables business. Lastly, our financing assumptions remain conservative at the Parent segment, and our 2024 guidance range assumes the absence of liability management transactions. As always, we'll remain opportunistic in this regard, and we'll look to capitalize on attractive market conditions should they arise. To elaborate on the glide path to achieve our 2024 adjusted EPS guidance range, you'll see the usual waterfall chart on Slide 12.

For clarification purposes, all of the variance analyses herein are measured on a full year basis and are relative to 2023. From left to right, we'll plan for normal weather, which in this case amounts to \$0.43 per share of positive year-over-year variance, given the absence of the atypically mild temperatures experienced throughout 2023. Additionally, we anticipate \$0.23 of EPS pickup attributable to rate relief, driven by the residual benefits of last year's constructive gas rate case settlement and assumed supportive of outcomes in our pending electric and gas rate cases.

As always, our rate relief figures are stated net of investment-related costs such as depreciation, property taxes, and utility interest expense. As we turn to our cost structure in 2024, you'll note \$0.16 per share of positive variance due to continued productivity driven by the CE Way; the ongoing benefit of cost reduction measures implemented in 2023, such as our voluntary separation plan, which reduced our salaried workforce by roughly 10%; and initiatives already underway. It is also worth noting that our cost assumptions exclude the impact of the catastrophic ice storm we experienced in the first quarter of 2023.

Lastly, in the penultimate bar on the right-hand side, you'll note a significant negative variance, which largely consists of the reversal of select one-time cost reduction measures. These are partially offset by the ongoing benefits of our well-executed financing plan in 2023, and we're assuming the usual conservative assumptions around weather-normalized sales, taxes, and non-utility performance, among other items. In aggregate, these assumptions equate to \$0.58 to \$0.64 per share of negative variance. As always, we'll adapt to changing conditions throughout the year to mitigate risk and deliver our operational and financial objectives to the benefit of customers and investors.

On Slide 13, we have a summary of our near- and long-term financial objectives. To avoid being repetitive, I'll focus my remarks on those metrics we have not yet covered. From a balance sheet perspective, we continue to target solid investment-grade credit ratings, and we'll continue to manage our key credit metrics accordingly as we balance the needs of the business. As previously mentioned, we have already settled the remaining equity forwards and have no additional equity needs in 2024. Longer term, we intend to resume our at-the-market (or "ATM") equity issuance program in the amount of up to \$350 million per year beginning in 2025 and extending through 2028, which is essentially the same assumption in our previous 5-year plan, but for the extension of an additional year.

We're able to maintain our pre-existing equity needs despite an increased utility capital plan, given the expectation of strong operating cash flow generation and the ability to monetize tax credits courtesy of the Inflation Reduction Act. It is also worth noting that this morning's decision by Moody's to increase the equity credit ascribed to junior subordinated notes, which represents about 40% of our debt at the parent company, is not embedded in our plan, thus providing further cushion in these metrics.

Slide 14 offers more specificity on the balance of our funding needs in 2024, which are limited to debt issuances at the utility, over half of which has been opportunistically issued as noted on the page. And the coupon rate on this newly issued debt is favorable to plan, thus providing a helpful tailwind as we start the year. Over the coming year, we have no planned long-term financings at the parent and already redeemed its sole maturity in January at par.

Longer term, we have relatively modest near-term maturities at the parent with \$250 million due in 2025 and \$300 million due in 2026.

On Slide 15, we've refreshed our sensitivity analysis on key variables for your modeling assumptions. As you'll note, with reasonable planning assumptions and our track record of risk mitigation, the probability of large variances from our plan is minimized. Our model has served and will continue to serve all stakeholders well. Our customers receive safe, reliable, and clean energy at affordable prices. Our diverse and battle-tested workforce remains committed to our purpose-driven organization, and our investors benefit from consistent industry-leading financial performance.

Before I hand it back to Garrick, I would be remiss if I didn't take a moment to echo Garrick's™ praise of Sri, whom I've worked closely with over the past 7 years. Sri's contributions to the finance team and the company have been immeasurable since he joined CMS. So thank you, Sri, for leaving it better than you found it, and I look forward to working with you and Jason in your new roles. And with that, I'll pass it on to Garrick for his final remarks before the Q&A session.

Garrick J. Rochow

President, CEO & Director

Thank you, Rejji. You all know this last slide very well by now. Over 2 decades, regardless of conditions, no excuses, just results. Given the challenges of 2023, I'm extremely proud of the team's efforts. Our simple investment thesis is how we run our business. It has withstood the test of time and provides us confidence for a strong outlook in 2024 and beyond. With that, Emily, please open the lines for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Nick Campanella with Barclays.

Nicholas Joseph Campanella

Barclays Bank PLC, Research Division

Thanks for all the info today, and Sri, great work with you all these years, best of luck in the new role. So, yes, just to get started, could you maybe just help us understand the DIG uplift in kind of context of the current 6 to 8 CAGR? You have some open capacity there. The current run rates are clearly higher. Just -- what's the timeline to lock that in? And how should we kind of think about the uplift to the 6% to 8% or perhaps just adding higher visibility and extending the 6 to 8 or even longer?

Garrick J. Rochow

President, CEO & Director

Thank you, Nick. Good to hear from you. I appreciate the shout-out for Sri and your comment there and your question. Those traditional, what I'd call, outside of rate base growth. So those growth drivers outside of traditional rate base, energy efficiency, financial compensation, mix, and DIG. Those are powerful in the plan. And you asked specifically about Dearborn Industrial Generation. We are seeing both energy and capacity prices elevated, particularly in the out years of the plan. We have available capacity beyond 2026 out through the plan. We're layering in contracts really as we speak, which with attractive numbers and which give us confidence in our plan, particularly in the out years through DIG. Is that helpful?

Nicholas Joseph Campanella

Barclays Bank PLC, Research Division

Yes. I appreciate that. And then on the REP plan, I guess if you file second half of '24, can you just help us understand regulatory process? When would that -- when would there be a decision there? Or what does that kind of look like? And then how does that kind of flow through to your CapEx plan? Would it be like this time next year, we kind of get an update on how that flows through? I'll leave it there.

Garrick J. Rochow

President, CEO & Director

Well, thank you, Nick. First of all, this is not a new filing. It is a more important filing. It is a bigger filing, as you might imagine, if you're going to achieve 60% renewables by 2035 or 50% by 2030, it has to grow from a size perspective. So it takes an increased importance. It's also important to remember, it's based on energy versus the Integrated Resource Plan, which is based on capacity. So that work is underway. It's really a spectrum.

To meet that standard, you do all PPAs. That's one bookend or do you do all ownership? I view it somewhere in the middle. But what's the strength of this energy law is there's a lot of flexibility to be able to start that path to those clean energy ambitions. We got to think about what the customer impact is.

We've got to think we're still required as load-serving entity to meet resource capacity constraints in the IRP. So that's a consideration. We've got to look at the balance sheet. And here's a really capital-light option where we can get an FCM at 9%. That's a really attractive part of this energy law. So there's a lot of dynamics that have to play out in there. That work is underway right now. We will file that renewable energy plan in the second half of the year. We have until '25 to get it done, but we want to pull that forward into 2024, given the work that has to be done in these milestones that are out there. So we'll file that. The commission has and staff have 10 months to get to a final order. And then that information there will certainly aid our capital plan and the upside from the FCM mechanism, but also flows into our integrated resource plan. And that integrated resource plan should become less complex because of this

renewable energy plan work. Ultimately, that then flows into rate cases that as we move forward overtime on the annual frequency. So I know Rejji has some more comments on this as well. So I'll pass it to Rejji.

Rejji P. Hayes

Executive VP & CFO

Yes, Nick. So all I would add to Garrick's good comments is as you think about that trajectory and sequencing that Garrick laid out, it's important to note that the plan that we laid out today that takes you from 2024 to 2028, does not incorporate any capital investment opportunities associated with the new legislation. And so as we file the REP in the second half of this year and then get feedback presumably in the second half of 2025. We won't start incorporating capital opportunities, most likely for a couple of vintages of 5-year plans. Now we have started to layer in the energy waste reduction or energy efficiency opportunities as well as modest portion of the FCM opportunities. But I think in subsequent 5-year plans, you'll start to see more FCM-related opportunities and certainly more capital opportunities. But it's going to take a couple of vintages before we have real clarity on that. Is that helpful?

Nicholas Joseph Campanella

Barclays Bank PLC, Research Division

That is helpful. And that was a lot of information. I appreciate it. Looking forward to seeing you next week. Have a good day.

Operator

The next question comes from Jeremy Tonet with JPMorgan.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

Just wanted to touch base, I guess, a little bit more on the Moody's change this morning. If you could just walk us through that a bit and quantify how much equity credit that is? Just trying to get a sense for what that means.

Rejji P. Hayes

Executive VP & CFO

Jeremy, this is Rejji. So Moody's this morning, increased the equity credit that they ascribed to junior subordinated notes, which are more informally referred to as hybrids. It was previously a 25% equity credit. And they're essentially now at parity with S&P at 50%. So the reason why that's impactful for us is that we've issued those securities quite a bit over the last 5 to 6 years, and so it currently represents about 40% of our debt portfolio at the holdco. And so by them increasing in the equity credit ascribed to this. It really increases, I'd say, the FFO debt metrics -- FFO to debt metrics at Moody's by about 50 to 60 basis points. So fairly accretive from a credit perspective to plan.

Jeremy Bryan Tonet

JPMorgan Chase & Co, Research Division

Got it. That's really helpful there. And as we approach finalizing the electric rate case, just wondering if you could provide any more incremental thoughts, I guess, on how you feel about how things are progressing there? Just any color would be appreciated.

Garrick J. Rochow

President, CEO & Director

Jeremy, things are progressing nicely. I feel good about a constructive outcome. Staff had a great starting spot on what I think can be a constructive outcome and feel confident that we can get there. There's a lot of positive indicators, support for the important work on reliability. I would say there's a great alignment between staff and frankly, the commissioners and where we want to go, improve reliability in the state. That's a big part of this electric rate case. And also positive indicators on the mechanisms that we have talked about in the past, this infrastructure recovery mechanism.

We think that's really important from a go-forward reliability perspective, it's also lines up with what Chair Scripps has shared about ring-fencing and providing opportunity to capital to see the insight of where those investments are and how they make a difference. And then finally, our undergrounding pilot. That has seen support as well. That's an important first step in this resiliency play and our larger ambitions that are evident in our reliability roadmap. And so again, I feel really good about where the case is headed and we expect a final order on or before March 1.

Operator

Our next question comes from Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

Just a real quick cleanup question on the CapEx and rate base. Is part of the rate base CAGR increase to that firm 7.5% and the higher CapEx run rate. Is that driven by some of the spending and solar delays in '23, so slightly off maybe a lower base and timing differences? Or is it driven by new CapEx, the tailing of the plan or maybe a combination of both especially since you guys don't really include a lot of CapEx until we get through the approval process, right?

Rejji P. Hayes

Executive VP & CFO

Yes. Sure. This is Rejji. I appreciate the question. I would say it's largely due to the latter, and that's incremental CapEx. So remember, we have the electric reliability road map that we provided -- that we filed with the commission in late September of last year. And so that had \$3 billion of incremental CapEx opportunity versus the prior vintage. We haven't incorporated all of that. But about half as per Garrick's prepared remarks, so call it roughly a good portion of that \$1.5 billion step-up in our new plan versus our old plan. We also do have increased renewable investments. But I wouldn't say that that's sort of the deferrals that are coming into 2024 from 2023, yes, there's a little bit of that, but it's largely additional IRP execution on the renewables side as well as our voluntary green pricing program.

So I'd say the vast majority of that uplift from our 5-year CapEx plan. The current one versus the prior is driven by electric reliability-related investments. And then you got a portion attributable to clean energy investments, largely renewables.

Garrick J. Rochow

President, CEO & Director

Let me just reinforce that and the one I'd like to think about add on to Rejji's good comments there is that clean energy piece and the supply, it's what's approved in our '22 IRP. And the upside will be to the tail end because we haven't built in any of those new energy laws, as Rejji stated in some earlier comments. So has that renewable energy plan is filed and eventually approved, then you'll see that'll likely hit the tail, but even beyond the 5 years. You can see a nice path of 10 years of investment opportunity as a result of this energy law.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

Got it. Okay. Yes, it just sounds like it's more incremental versus shifting from '23 to '24, okay. And then just on the balance sheet, the \$350 million in equity after '25, I guess, does that contemplate sort of an increases beyond the current CapEx plan as you look to ramp up reliability in renewable spending?

Rejji P. Hayes

Executive VP & CFO

Shar, this just incorporates the current 5-year plan of \$17 billion of utility CapEx and it's enough work to prepare these 5-year plans. So we're not thinking about years 6 through 10 just yet. So I would say that it's, again, just the \$17 billion utility CapEx plan of the funding associated therewith. But as per my

prepared remarks, we're quite pleased that even with that upper pressure on equity needs as a result of that growing capital plan, we didn't have to change the annual amount.

So we're still up to 350 as we were in our prior plan and it has a lot to do with just good cash flow generation and the plan to monetize tax credits as a result of the IRA.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

Got it. And then just last one is just on the Palisades revival seems to be moving forward with the DOE loans, does that change sort of the calculus maybe from a resource planning perspective, would you be open to purchasing the power under an FCM construct? Or does it still seem too expensive for you?

Garrick J. Rochow

President, CEO & Director

We're watching the activity on Palisades, but I just want to remind everybody on the call here we're not involved in Palisades and from a PPA perspective, it's spoken for, both with 2 co-ops. And so we're not engaged at all within that process. Now we hope from an implication perspective, we think it's great for Michigan, and we wish them well and success in getting the plant up and operational.

Shahriar Pourreza

Guggenheim Securities, LLC, Research Division

Got it. So no change in your resource planning I guess the point was?

Garrick J. Rochow

President, CEO & Director

No change in the resource planning. And I would just remind everybody, even with that potential out there, we see great opportunities in energy and capacity that are evident at Dearborn Industrial generation.

Operator

The next question comes from David Arcaro with Morgan Stanley.

David Keith Arcaro

Morgan Stanley, Research Division

Congratulations to both Sri and Jason. Really great working with both of you. I was curious if you could give your latest thoughts on load growth expectations here. And whether you're seeing any activity -- increased activity in manufacturing or data center growth to kind of hit the radar?

Garrick J. Rochow

President, CEO & Director

Let me start, and then I'll pass it over to Rejji too. There's a lot of great things going on in Michigan from an economic development perspective. Onshore and friend-shoring, benefits of the Chips Act, IRA, we're seeing growth in polysilicon. We're seeing growth in semiconductors. We're seeing growth in agricultural processing, battery manufacturing and parts that go into vehicles and the like. So just a lot of manufacturing growth, which I love frankly, it creates jobs. It has a supply chain that goes with it. And frankly, there's a lot of margin in those areas. To your point, we're also seeing some data center growth. That's part of the plan. But we get really excited with the manufacturing side just because of the other additional benefits that are associated with that.

So that's kind of a big-level picture and that pipeline continues. We've got a nice pipeline of growth into the year. And I want to remind everybody to plan conservatively. We're not counting any of that upward supply and sales type opportunities until we see the meter spinning. And so that's just our conservative approach. But let me hand it over to Rejji for some additional comments.

Rejji P. Hayes

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Executive VP & CFO

David, I think Garrick summarized it pretty well. And the big takeaway here is we plan conservatively. But what I'm pleased to represent, just to add some numbers to Garrick's good comments is that when you think about the last several planning cycles we've had, we've suggested that we've had sort of flat to stable or slightly declining load growth. And it's always important to remember that our load growth math includes our energy efficiency actions where we're basically reducing load year-over-year by 2%. And so we -- if you take that into account, we've been up about 2% or thereabouts on a gross basis for many years. But this current plan on a 5-year basis offers about a 1% swing from where we were just in our last 5-year plan.

And so we're assuming a little over 0.5% of growth over this 5-year plan, again, inclusive of our energy efficiency efforts. And so even though Garrick highlighted that we have a pretty robust and diverse pipeline of opportunities, all we have embedded in our current 5-year plan are the 2 large projects that were announced over the last year or so with Gotion and Ford. And so that's really all we have incorporated in our plan. And I'll tell you, candidly, we'll be disappointed if that's all we're talking about in the next 2 to 3 years, given again, the breadth and depth of our pipeline today. So good opportunities going forward on the load front. We're already seeing that in the numbers, but I think there's more opportunity going forward.

David Keith Arcaro*Morgan Stanley, Research Division*

Got it. Excellent. That's helpful. And then back on the topic of rate cases. I was just wondering your latest thoughts on the ability to settle rate cases, not for the electric one, obviously, but maybe your gas rate case and then more broadly going forward in the state for future rate case activity.

Garrick J. Rochow*President, CEO & Director*

Sure. We have a historic practice. We're coming off of 4 or 5 Iâ€™ve lost track how many settlements. And so that's still part of our makeup. We're still going to look at how to -- when the case is underway, how do we best reach the right conclusion for our customers and for our investors. And so we look at those opportunities. I've been on these calls before and said, hey, look for any opportunity for a settlement when the conditions are right. But we're also comfortable going to a full order because we're that confident in our ability to get a constructive outcome here in Michigan. And so this gas case that we filed in December really straightforward. I'm hopeful that we can get and reach a settlement. But again, if it doesn't, that's okay, too. We can get to a constructive outcome here in Michigan.

Operator

Our next question comes from Michael Sullivan with Wolfe Research.

Michael P. Sullivan*Wolfe Research, LLC*

Congrats, Sri. Go blue. Yes, I know this got asked like a couple of different ways, Rejji, just on the equity needs, just maybe if you could just frame how to think about where they could go as CapEx goes higher as we start to roll forward with the REP refresh, like taking into context the ability to use transferability, discussion you got from Moody's like CapEx goes up by x, how much could that potentially increase equity?

Rejji P. Hayes*Executive VP & CFO*

Yes, Michael, I appreciate the question. I would say, clearly, we've made the working assumptions in this current 5-year plan quite clear up to \$350 million starting in 2025 through the duration of this plan out to 2028. As it pertains to future 5-year plans, mathematically, I would say yes, if your capital plan increases, and I think based on what we've talked about with respect to the prospects of the new energy law, we will see upward pressure on our capital plan going forward.

Remember, there are sources of offsetting pressure given the strength of the regulatory construct in Michigan. There's very strong operating cash flow generation, which obviously sources -- obviously provides a source of internal equity. And then we've got now sources of downward pressure with the ability to monetize tax credits. The amount we have embedded in our plan is just over \$0.5 billion. And I expect that to accrete over time as we take on new renewable projects. And then obviously, the good news from Moody's this morning offers a little bit more headroom on the Moody's side.

Now, I would not suggest at the moment that we're prepared to give sort of new equity needs on a hypothetical basis, but we'll recalibrate every year. But I think, again, the strong sources of downward pressure on equity needs will be operating cash flow generation, the ability to monetize credits and obviously Moody's decision today is helpful. And obviously, we plan conservatively. So that's the other aspect of it as well. And obviously, with the great rate contract in addition to the cash flow generation, we have a solid level of retained earnings, particularly with a very disciplined dividend policy that Garrick highlighted in his prepared remarks. So that's the other aspect I'd add as well.

Michael P. Sullivan
Wolfe Research, LLC

Okay. Super helpful. And then just wanted to check in the latest on the PSC looking at performance-based rates in Michigan and where that stands and where you potentially see that going.

Garrick J. Rochow
President, CEO & Director

The process is well underway, Michael, and it's improving. We've seen it move from a handful of metrics down to 4 metrics that are very benchmarkable across the industry. Our next set of comments are due by February 2. And what we're leaning into in those comments is a better connection between these outcomes and reliability and more certainty on capital recovery. If you look at best practices for performance-based rate-making across the country, frankly, across the globe, there's a greater tie between here's the outcome and here's the certainty on recovery. So we're wanting to make sure in our comments that, that is true here in Michigan. And so that's the work that's underway. So we'll continue to follow the process. And I'm sure here, just given the constructive nature of Michigan, we can get to place a good landing spot for PBR.

Michael P. Sullivan
Wolfe Research, LLC

And any sense of just timing on when it could all kind of come to a conclusion?

Garrick J. Rochow
President, CEO & Director

So we're still in process right now. Like I said, comments are due here February 2. Ideally here, there's some milestones around May time frame as well, but we haven't got a clear picture from an ending perspective -- appropriately plays out -- I'm sorry, just likely plays out in the next electric rate case well beyond this one.

Operator

The next question comes from Julien Dumoulin-Smith with Bank of America Merrill Lynch.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Thanks again for the time. I appreciate it very much. Just following up maybe zeroing back to where we've been talking about the balance sheet here for a little bit. I just want to clarify what's in the updated CFO, the cash flow number that you projected. I presume that doesn't include any kind of expectations for uplift on DIG, among other factors.

Also maybe we could talk at the same time about how much additional latitude you're getting from Moody's, given the tweak with the juniors there? And then ultimately, on the dividend, it seems like dividend growth may be slowing a little bit. Should that be the new norm here just given maybe trying to target a lower payout given the accelerated growth? Sorry, I'm just throwing it all at the same time here if you want to address.

Rejji P. Hayes

Executive VP & CFO

Julien, I appreciate the question. That's quite a bit to unpack there. So let me start with DIG and the OCF implications. And so everything that we've highlighted in our 5-year plan, so think about the rate base growth up to 7.5%. We also talked about additional opportunities attributable to energy efficiency. These are the non-rate base growth drivers of the utility, FCM. And then we talked about non-utility opportunities with DIG recontracting. All of that is based on our -- all of that is incorporated into our earnings as well as our cash flow generation. And so we have a page in the appendix that shows about a little over \$13 billion in aggregate cash flow generation over the course of this 5-year plan, and that incorporates some re-contracting that we've seen at DIG on both the energy and capacity side, but it does not take into account that open margin that we have on Slide 21 in the appendix and the potential opportunities if you see a higher capacity price over time.

And so there is some upside, both from an earnings and cash flow perspective. So not all of that is baked into the cash flow. So there's additional opportunity there.

Just transitioning over to Moody's. I'll note that the decision to increase the equity credit from 25% to 50% for junior subordinated notes, that's worth about 50 to 60 basis points of FFO to debt accretion. And then with respect to dividend policy, we've really been very consistent in dividend policy since we sold EnerBank and started to accelerate the earnings growth of the business. And really the idea has been to trend down to a low 60s percent payout ratio, as Garrick highlighted in his prepared remarks, and so what that equates to is really decoupled growth between our DPS growth or dividend per share growth and our earnings per share growth.

We've said 6% to 8% toward the high end for earnings per share. We'll probably be closer to the low end as the \$0.11 increase today implies. And that will be the plan going forward because we do believe that that's a very efficient use of capital to have the dividend policy in that level so that we can efficiently fund the growth of the business. And so really that is how we're thinking about it going forward. Was that helpful?

Julien Patrick Dumoulin-Smith

BofA Securities, Research Division

Yes, absolutely. And maybe just to tie that together here. I mean, if you look at your FFO metrics altogether, you raised the rate base growth up to 7.5% now through the 5-year period. I get it's not exactly apples-to-apples across the years, but it doesn't seem like there's incremental equity versus the original plan per se. So how do you think about your metrics through this outlook? Are you actually intact net-net-net, given the various factors we just elaborated on? Or are you seeing a slight uptick prior reflecting some of these other pieces, if you will. Just how do you think about where you land?

Rejji P. Hayes

Executive VP & CFO

Yes. So we feel very good about the credit metrics staying in that mid-teens area, which we have targeted for some time now to preserve the solid investment grade credit metrics -- I mean, credit ratings, excuse me, we've had for many years now, and that's with a longstanding dialogue with the rating agencies.

The OCF generation, coupled with the equity needs up to 350 as well as the monetization of tax credits. And again, just a very disciplined dividend policy. All of that allows us to maintain our credit metrics in that mid-teens area. And again, yes, we've increased the utility CapEx plan. We've held on to the equity needs and those supporting factors allow us to stay on that level. So that -- and certainly, there may be opportunity longer term, but we feel very good about the metrics where they are today and don't intend

to deviate from our current credit ratings. I don't think that's the implication of your question, but I just wanted to say that for the avoidance of doubt.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Awesome. Excellent. And then just through the same outlook here, I mean just given all the focus on legislation, can you just clarify what is the sort of expected bill impact or commitment here rather, given all to come on what that means for customers as best you guys are going to try to target this?

Rejji P. Hayes
Executive VP & CFO

Yes, Julien, to be clear, this is with respect to the new energy legislation.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Yes. As you think about what is on the come? I mean, is there any kind of commitment you guys are making on trying to level that out for customers in any specific pace?

Rejji P. Hayes
Executive VP & CFO

Yes. Needless to say, as we've always talked about, when we prepare not just this 5-year plan or prior plans, but future plans, the key governors will be affordability, balance sheet, and can we get the work done. And as it pertains to new energy legislation, yes, it does create additional opportunities, whether that's on the capital investment side or on contracts with the financial compensation mechanism, but trust, we will not turn a blind eye to affordability. And what makes us really excited about the opportunity going forward is when we think about our current energy mix and how we're sourcing energy, we have about \$1.5 billion that we spend each year on a combination of PPAs as well as open market repurchases that we're paying a pretty high levelized cost of energy on a weighted average basis.

And so with the new energy law, going into effect and the opportunities associated therewith. We think there's a lot of headroom to get economics on energy going forward without increasing customer bills. Now there's a lot more process left, as Garrick noted, but we do think there's a lot of headroom already in bills for us to potentially deliver on that triple bottom line, where there's nice economic opportunity for investors, but again, not doing that to the detriment of customers.

Operator

The next question comes from Andrew Weisel with Scotiabank.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

Two questions just to elaborate on your earlier comments. First, '23 CapEx fell short of your target, \$3.3 billion versus \$3.7 billion planned. Can you just talk about what happened there? I think some of that might have been the solar delays. And then what happened to that \$400 million? It sounds like that was not part of the \$1.5 billion increase. So can you just help explain what happened there?

Garrick J. Rochow
President, CEO & Director

It's expected in the context of a year that you're going to have projects. Andrew, 25 years in this business and I've -- no project goes exactly as you plan and sometimes they shift and move. And particularly with the solar piece, as Rejji mentioned in his prepared remarks, it's really not the supply chain at this point. We've got a lock-in on panels and the like. It is really about local entities and siting and permitting. Now we work through that. It just means we might move to a different community or there might be different setbacks that we have to work through. All of that is doable, but it does create some shifts in the context of the year. But the key piece is it's not moving. We still have to deliver on 2030, 50% renewables. We

have to be at 60% by 2035. That doesn't change. And so if it's not in this year, it just moves to a different year, and we'll continue that project. So there's a bit of shifting that ends up moving on the capital plan. So hopefully, that helps. Hold on, Rejji's got to comment as well.

Rejji P. Hayes*Executive VP & CFO*

Yes. And Andrew, what I would add, I think you're sort of reflecting on Shar's question and my response to that. To be clear, we do have some of that spend that we did not achieve in 2023. Some of that is certainly pushed into this new 5-year plan. It's just the vast majority of the increase in this 5-year plan versus the priors is driven by reliability-related investments. So there's certainly is a portion of those deferrals being pushed into '24 and beyond. But again, the biggest driver of this new 5-year plan is reliability.

Andrew Marc Weisel*Scotiabank Global Banking and Markets, Research Division*

Okay. That makes a lot of sense. And a quick follow-up on that. In the Page 24, you give spending by year. The number for 2028 at \$3.1 billion is actually the lowest of the next 5 years. Directionally, I would have expected the opposite. I personally assume you'll be increasing that as you go through these regulatory processes. But maybe you can just talk about why the trend is dipping down rather than going up every year.

Rejji P. Hayes*Executive VP & CFO*

Andrew, this is Rejji. I'll take that. Yes. So what you're seeing here in that '24, '25 time frame is just we do anticipate a pretty big increase in reliability-related investments. And so that's what's driving a lot of that. Obviously, that's going to be subject to regulatory outcomes. And so we'll toggle the plan as needed. And I think Garrick's earlier point is well taken that. These plans, you see capital projects come in and out, some get pushed in, some get pushed out. And so we do anticipate that smoothing out over time. And so the composition over this 5-year time frame may change, but we feel very good about the quantum overall of \$17 billion. And so you may see some of that lumpiness go in and out -- or sorry, smooth out over time.

Andrew Marc Weisel*Scotiabank Global Banking and Markets, Research Division*

Okay. And congrats again to and Sri and Jason. Sri you're going to have your hands full. And Jason, you've got very big shoes to fill, so best of luck to both of you.

Operator

The next question comes from Durgesh Chopra with Evercore ISI.

Durgesh Chopra*Evercore ISI Institutional Equities, Research Division*

Just Rejji, can you quantify for us of that \$13 billion in operating cash flow, how much of that is tax credits monetization?

Rejji P. Hayes*Executive VP & CFO*

Durgesh, yes, happy to offer that color. It's about \$0.5 billion of tax credit monetization that's incorporated, a little over \$0.5 billion. And that really drives a good portion of the vintage-over-vintage difference. In the prior vintage, I think we were saying, call it, almost \$12.5 billion of aggregate cash flow, operating cash flow generation, and this one kind of 13 and change. So a good portion of it is driven by the tax credit monetization, which again is over \$0.5 billion.

Durgesh Chopra*Evercore ISI Institutional Equities, Research Division*

So that's like over the 5-year period, so \$100 million a year, roughly speaking.

Rejji P. Hayes

Executive VP & CFO

I wouldn't say it's as linear as that or as flat as that. I would say it actually it's going to be a little lower in the front end, and then it's going to grow over time.

Durgesh Chopra

Evercore ISI Institutional Equities, Research Division

Understood. I appreciate that. And then a quick follow-up, any update on the storm review process? What's going on there? I know we're expecting a report out, I think, in September this year. Just anything you could share there?

Garrick J. Rochow

President, CEO & Director

As I've shared in previous calls, Durgesh, we're working on improving reliability. You can see that in the capital investment plan. You can see that in the reliability roadmap. We're focused on it, the commission's focus on it. The audit is underway, good process on it. And I look forward to the results and would anticipate we're going to incorporate in the future rate cases. From a process perspective, it still looks like we're on track for September time frame.

Operator

Your next question comes from Travis Miller with Morningstar.

Travis Miller

Morningstar Inc., Research Division

Again, echo congrats to Sri and Jason, Sri really appreciate all the help over the years, been great. A quick question on Slide 12. The \$0.16 of the cost savings, how much of that is just the reversal of higher costs? And how much is incremental cost savings you're expecting this year?

Rejji P. Hayes

Executive VP & CFO

Travis, it's Rejji. Appreciate the question. Yes, so on the waterfall chart just for others reference for 2024. Yes, the \$0.16 of pickup that we're seeing or that we're anticipating year-over-year, you do see a portion of reversal related to storm activity. Obviously, I mentioned in my prepared remarks that we had a significant ice storm in the first quarter of 2023. And so we do not anticipate storms of that magnitude year in and year out. But we also have a good portion of CE Way related savings. And I'd say it's about \$60 million or call it, \$0.15. And you have to think about the puts and takes here. So you've got the reversal of storms. You definitely have cost savings embedded in this current plan, but we also have inflation in other cost categories like salaries as well as other costs, nonlabor-related costs. And so there's a mix of inflation as well as cost savings to offset or fund that inflation. And then that, coupled with the reversal of the storm is what drives that \$0.16 per share.

Travis Miller

Morningstar Inc., Research Division

Okay. Great. That makes sense. And then a broader question, you have touched on a little bit in the call here. But when you think about those clean energy standard buckets in terms of the nuclear, natural gas with carbon capture and renewables. What's your thought long term in general? I know you don't have the specifics yet, but how those 3 buckets work for you? I mean it seems like in your previous earlier comments, nuclear is not really on the table right now. How much does nuclear, natural gas CC mix go into that mix when you're thinking about 2035 or 2040?

Garrick J. Rochow

President, CEO & Director

Great question, Travis. What I love, and I do love about this energy law is there a lot of flexibility, just a ton of flexibility in there, and that's the strength and that served us well in previous energy laws, even you go back to 2016, the Integrated Resource Plan. You build a plan that works for your customers, works for your investors and allows you to deliver the energy supply that you need across your service area. Our focus right now is really on this first step, which is the renewable energy plan. And that is wind, it's solar, it's hydro, we have to hit the milestone by 2030 at 50% and then by 2035 at 60%. Those are important milestones first. So that's our focus right now.

Now we're not taking our eye off the ball. By 2040, we have to have 100% clean energy. There's a milestone along that journey as well that will get into the carbon capture. That will get into other considerations and how we meet that.

So that's a broader definition where nuclear is part of it, natural gas with carbon capture and so I anticipate that once we get this renewable energy plan finalized, we're going to start looking out there at those other future sources. Right now, we would see it given our natural gas fleet as consideration for carbon capture as one of the options, but we're not taking anything off the table. We got to have a wide-open landscape, going to do the right math, got to make sure we have the right plan for our customers and for investors. So we're not saying no to anything. So hopefully that helps.

Operator

The next question comes from Sophie Karp with KeyBanc.

Sophie Ksenia Karp

KeyBanc Capital Markets Inc., Research Division

So I wanted to ask you about your prospective growth in the renewable energy investments, obviously, as outlined by the new law and the filing you intend to make. I guess what we have seen in other states and other jurisdictions right now, is somewhat of a pushback maybe on those types of investments. The genesis of that might be different in different jurisdictions, but it seems that the cost is often a barrier.

So my question is, how do you plan to sort of avoid that? And what are the steps you've taken to socialize this plan as to not shock the regulators or intervenors or consumers once that becomes a reality?

Garrick J. Rochow

President, CEO & Director

It's a great question. There's a lot of dynamics that play out in any type of construction, whether you're putting in a gas pipeline or whether you're building renewables. And we've really at a ground level from a community perspective is where we see the opportunity to be able to best influence this. And so -- for example, we completed the 201-megawatt Heartland wind farm up in the Gratiot County area, Gratiot County and surrounding counties have been very welcoming to renewables. And so we know that because we're on the ground, making that happen. And that's the way we intend to approach these at a very local level. Now there is -- there has been citing reform in the state that was signed in November time frame by our governor. That has to be implemented by the commission. And so there's some work there, but that could also help from a siting perspective as we move forward.

I would remind you, too, within this new energy law, we have the opportunity to be outside of Michigan as well in MISO. And so we're going to look for a lot of -- there's windier states or sunnier states. We're going to look for those areas where projects are underway or there's good siting opportunities to be able to connect and be able to achieve the clean energy standard as well.

As I shared also, when I think forward about this new energy standard, it's a mix, right? It's not all ownership, it's not all PPAs, it's probably a blend that makes the most sense, and that's what we're figuring out right now. And so that gives us a lot of options. Again, that's the strength of this to be able to find all those important resources, get them all sited and get them constructed.

I would also remind you, last comment, I'm a little long-winded here, but there is flexibility in this law as you're not there exactly in 2030 or 2035, you can get an exception through the Public Service Commission. So that also offers flexibility to be able to achieve these ambitious clean energy goals.

Operator

Our final question comes from Anthony Crowdell with Mizuho.

Anthony Christopher Crowdell

Mizuho Securities USA LLC, Research Division

Thanks for fitting me in here during Sri fest 2024. Just quickly, I wanted to take the other side of Julien's question. I think you finished the year slightly under 15% FFO to debt, potentially get 60 basis points adder for the change at Moody's. I mean, any thought, I think the upgrade trigger for you guys at Moody's is 17%. I mean, any thought of maybe achieving that to get an upgrade in your credit rating?

Rejji P. Hayes

Executive VP & CFO

Anthony, it's Rejji. I appreciate the question, and we're also enjoying our time in the 2024 Sri fest. Thank you for acknowledging that. I would just say it's a pretty big lift, I would think, to get mathematically to that '17 or high teens area that Moody's and S&P have guided us toward if we wanted to get an upgrade. And so that would require in the absence of additional equity, pretty substantial cash flow generation and/or monetization of tax credits. And so I don't foresee that in the near term or in this vintage of our 5-year plan. And I've also just observing markets now for, it seems like with the last 15 to 20 years, it really hasn't been worth the cost of getting to those higher credit rating levels.

If you think about the juice being worth the squeeze, just the amount of coupon that you can save by having a higher credit rating has not been worth the cost of all the equity issuances and so on. And so we like where we are right now. We think that's the most efficient area from a credit rating perspective to issue debt. And really, there's no appetite to equitize the balance sheet in a manner that will allow us to get an upgrade. So we feel good where we are is long winded way of saying that.

Operator

We have no further questions. I'll turn the call back to Garrick for closing remarks.

Garrick J. Rochow

President, CEO & Director

Thank you, Emily. And I'd like to thank all of you for joining us today for our year-end earnings call. I look forward to seeing you on the road here in the near future. Take care, and stay safe.

Operator

This concludes today's conference. We thank everyone for your participation. You may now disconnect your lines.

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