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CMS Energy Corp. (CMS)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Austin Bauer

Communications Consultant, Consumers Energy

Good morning, everyone, and welcome to the CMS Energy 2022 First Quarter 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. After the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time. [Operator Instructions] Just a reminder, there will be a rebroadcast of this conference call beginning today beginning at 12:00 PM Eastern Time, running through May 10. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

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

Srikanth Maddipati

Treasurer & Vice President-Finance and Investor Relations, CMS Energy Corp.

Thank you, Austin. 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 measures are included in the appendix and posted on our website.

Now, I'll turn the call over to Garrick.

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Thanks, Sri, and thank you, everyone, for joining our call today. I'm pleased to share the great progress we have made over the quarter and with our IRP.

You've heard me speak about our simple investment thesis on many of these calls. It has withstood the test of time, and this quarter was no different. The industry-leading net zero commitments. These aren't just words. They're evident in our actions and our result. Our IRP settlement paves the way to be out of coal by 2025, one of the first utilities in the nation to achieve such a milestone. Our recently announced net zero goal for our gas system not just a dream, but evident in proof point that our net zero methane target and 20% reduction in customer emissions by 2030.

Excellence through the CE Way. I can't think of a more important time given inflation and supply chain constraint for our industry-leading cost management model to play out. Rejji will walk through specifics in his prepared remarks, but I continue to be confident in our ability to offset inflationary pressure and alleviate supply chain concerns. This means keeping customer bills affordable through our CE Way, lean operating system.

Top-tier regulatory jurisdiction. The IRP settlement once again demonstrates a constructive regulatory environment in Michigan, delivering important industry-leading outcomes for all. I'd be remiss if I didn't thank the Michigan Public Service Commission staff, the Michigan Attorney General, customer groups, environmental organizations, energy trade representatives and the Consumers Energy work team for the constructive dialog led to settlement in a 20-year blueprint to meet Michigan's energy needs while protecting the environment for future generations. All of this, along with the fundamentals of our simple but impactful investment thesis, leads to a consistent, premium total shareholder return for you, our investors. At CMS Energy, we deliver for all of our stakeholders. This is why you own us and what you can count on.

Now, let me get on with sharing the great news of the IRP and our quarter. I'm thrilled with this settlement. It provides a 20-year blueprint to meet Michigan's energy needs while protecting the future – the environment for the future generations, and ensuring financial certainty.

You've heard me say before, our IRP is a win for everyone. And let me share with you why. Our customers will see significant savings in addition to cleaner and more reliable energy. We're accelerating our ESG ambitions to decarbonize and lead the way to protect our planet, exiting coal operations and achieving a 60% carbon emission reduction by 2025, growing our solar build to 8 gigawatt and accelerating 75 megawatts of battery storage between now and 2027. Our investors will see capital upside along with the purchase of the Covert plant and economic incentives and demand side programs, as well as the continuation of a financial compensation mechanism, FCM on purchase power agreements, PPAs.

We also received regulatory asset treatment at an ROE of 9% on our retired coal assets through the remaining design lives. This settlement agreement is closely aligned with our original filing, but most notably we've dropped the purchase of CMS Enterprises assets and instead we'll pursue long-term PPAs with 700 megawatt of Michigan-based capacity starting in 2025. We believe the purchase of the CMS Enterprises assets was a good value for customers. Our primary concern was ensuring we secured sufficient capacity to meet our customers' need. The proposed RFP coupled with the purchase of the Covert plant and a delayed retirement for a Karn 3&4 peaking units will address this concern.

DIG and the peakers at Enterprises will have an opportunity to participate in this RFP, but will otherwise continue to sell capacity as they've done in the past in the attractive bilateral market. This is a win for everyone.

In March, we announced plans to achieve net zero carbon emissions for our natural gas system by 2050, which includes both our customers' and our suppliers' emissions. This adds to our long-term plan, both electric and natural gas, to further drive decarbonization and provide meaningful proof points along the clean energy transformation.

Net zero emissions across our natural gas system is certainly an ambitious target. However, we modeled this extensively. We believe it's achievable. The lowest cost and most reliable transition to a clean energy future is through existing infrastructure in a clean fuel network.

It also acknowledges that there are thoughtful ways to reduce and mitigate greenhouse gas emissions across important home heating and thermal electric generation resources, both are important in ensuring long-term affordability and reliability for our customers.

As we've demonstrated across our electric system with this IRP, these aren't just words. They're evident in our actions and our result. The proof points are in both, our net zero methane target and 20% reduction in gas customer emissions by 2030. And we're delivering on those plans and investment opportunities. This includes accelerating vintage main and service replacement and adding renewable natural gas to our system, all included in our five-year capital investment plan. It also means greater energy efficiency, carbon offsets and potential hydrogen blending which provide growth opportunities above our plan, strengthening and lengthening our investment horizon.

Our decarbonization plan is good for our customers, our planet and our investors. This is an important road ahead. We look forward to updating you on our progress.

Like I shared at the beginning of my remarks, we've had a great quarter. We're off to a strong start of the year on all fronts. In the first quarter, we delivered adjusted earnings per share of $1.20. This is up $0.11 per share from last year, ahead of our plan and positions us well as we start the year, giving us confidence as we navigate the nine months ahead.

We are reaffirming our 2022 adjusted full year guidance of $2.85 to $2.89 per share. But we continue to guide to the high end of our long-term adjusted EPS growth range of 6% to 8%. The IRP strengthens and lengthens our ability to deliver on our earnings glide path going forward.

Looking forward, we continue to see long-term dividend growth of 6% to 8%, with a target payout ratio of about 60% over time. Today, we are reaffirming our $14.3 billion five-year customer investment plan. As we've noted, the IRP does provide upside to our current plan. We remain disciplined in our approach. You can expect to see that update as we report fourth quarter result early next year.

As I often say, strong execution leads to strong results. And this quarter was another impressive example. We are confident in the full year guidance, and we are focused on delivering for our customers, the planet and you, our investors.

Now, I'll turn the call over to Rejji.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Thank you, Garrick, and good morning, everyone.

As Garrick highlighted, we're pleased to report our first quarter results for 2022. We delivered adjusted net income of $346 million, or $1.20 per share, up 10% off our 2021 first quarter result, largely driven by favorable weather and economic conditions [indiscernible] (00:10:22).

From a weather perspective, a relatively high volume of heating degree-days in the first quarter, coupled with the absence of unfavorable weather during the same period in 2021 provided $0.16 per share of positive variance, as noted on slide 7. And from an economic standpoint, we continue to see strong commercial and industrial load in our electric business while weather-normalized residential load continues to exceed pre-pandemic levels. All-in weather-normalized load in the first quarter contributed $0.04 per share of positive variance versus the comparable period in 2021 and is either at or above pre-pandemic levels across each of our customer segments, particularly when excluding the effects of our Energy Efficiency programs, which reduced customer load by about 2% per year.

Another noteworthy driver of financial performance for the quarter was rate relief net of investment-related expenses, which contributed $0.03 per share of upside as we continue to realize the residual effects of tax benefits from our 2020 gas rate settlement. These sources of positive variance were partially offset by increased operating and maintenance, or O&M expenses at the utility in support of key customer initiatives related to safety, reliability and decarbonization which equated to $0.06 per share of negative variance. We also realized $0.02 per share of negative variance for the quarter, largely related to annualized financing costs and the timing of tax expenses at the parent company.

Looking ahead, we feel quite good about the remaining nine months of the year. As always, we plan for normal weather, which we estimate will have a negative impact of about $0.09 per share versus the comparable period in 2021. We expect the impact of weather will be offset by rate relief net of investments, which we estimate to be roughly $0.20 per share versus the comparable period in 2021, and is largely driven by our expectation of a constructive outcome in our pending gas rate case later this year.

Closing out the glide path for the remainder of the year, as noted during our Q4 call, we anticipate lower, overall, O&M expenses at the utility driven by the usual cost performance fueled by the CE Way, and other cost reduction initiatives, and a more normalized level of service restoration expense on the heels of record storm activity in 2021. Collectively, we assume O&M cost performance will drive $0.29 per share of positive variance.

Lastly, we're assuming normalized operating conditions at Enterprises, given the extended outage at DIG last year, coupled with usual conservative assumptions around weather-normalized [indiscernible] (00:13:08). As we've said before, we'll continue to plan conservatively like we do every year to ensure we deliver on our operational and financial objectives, irrespective of the circumstances to the benefit of our customers and investors.

Our ability to deliver the result you expect year in and year out is supported by Michigan's strong regulatory environment. And as Garrick highlighted earlier, the multi-party settlement of our IRP provides more evidence of that. As noted, the IRP settlement that we recently filed includes a substantial near-term capital investment opportunity in the acquisition of the Covert gas plant, which strengthens and lengthens our financial glide path to the tune of about $0.03 to $0.04 per share with the assumption of reasonable parent funding costs and the 9% ROE on the retired coal assets.

As we look ahead, we remain acutely focused on obtaining approval of our IRP settlement agreement and making progress on our pending rate cases, which are highlighted in the regulatory calendar on slide 8. As for the latter, just last week we filed an electric rate case requesting a $272 million revenue increase with a 51.5% equity ratio and a 10.25% ROE. And I'll note that even with this request, the typical electric bill for residential customers will remain below the national average. From a timing perspective, we expect an order for our electric rate case in the first quarter of 2023. We also continue to work through our pending gas rate case and recently filed rebuttal tests. We anticipate an order for the gas rate case by October of this year.

The question we often get when we discuss our capital investment opportunities and regulatory construct is whether we can manage our cost and minimize the rate impact for our customers. And I'm pleased to report that we remain hard at work on all aspects of our cost structure to preserve headroom for needed customer investments in the long term and to mitigate the challenging inflationary environment in which we live.

Turning to slide 9, you'll see that several countermeasures have been implemented over the past several quarters to offset inflationary pressures. On the left-hand side of the slide, you'll note that the table highlights the cost categories that have had well-publicized, atypical levels of inflation, specifically costs related to labor, materials and commodities, and the corresponding risk mitigation efforts that we have employed.

Starting with labor, our workforce is roughly 40% unionized and in 2020 we renegotiated all three of our collective bargaining agreements with five-year terms, which provides cost and labor stability over the next three years with a substantial portion of our employee base. On the non-union side, we have benefited from a strong retention rate which is in excess of 95% and allows us to minimize hiring in a tight labor market.

From a materials perspective, we're actively managing our supply chain to reduce rising input costs. Part of these efforts include leveraging market analysis to optimize terms and conditions with new and existing vendors where possible, while broadening our vendor base. We're also deploying the CE Way in our distribution centers to eliminate waste, and we're exploring those best practices with our suppliers to reduce their costs and maintain availability of key materials.

It is also worth noting that approximately 90% of our material costs are capitalized, which reduces the income statement impact in the short term as those costs are incurred over time. Lastly, given the well-publicized tightening of solar equipment supply, we remind you that our solar buildout is modular in nature and allows us to flex projects over the plan period.

On the commodities side, we continue to run our electric generation fleet in a cost-efficient manner to insulate our customers from market volatility when they are dispatched. In fact, the heat rates of our natural gas plants are some of the lowest in the region, which means we can offer power at a cost lower than market, and that provides substantial value for our customers.

As we manage inflation risk in the current environment, you'll note on the right-hand side of the slide that we still have substantial episodic cost reduction opportunities longer term, which we estimate will generate over $200 million through coal plant retirements and the expiration of high-priced power purchase agreements. These cost savings are above and beyond what we'll aim to achieve annually through the CE Way which I'll remind you was a key driver in our achievement of over $150 million of cost savings in aggregate over the past two years.

Sustainable and agile cost management has been one of the key pillars of our success and enabled us to deliver on our financial objectives and there remain ample opportunities to reduce costs across the business going forward. Given our track record of reducing costs, we're highly confident that we'll be able to mitigate risk in the current environment and in the long run, execute our capital plan, delivering substantial value for our customers and investors as we always have.

And with that, Austin, please open the lines for Q&A.

QUESTION AND ANSWER SECTION

Austin Bauer
Communications Consultant, Consumers Energy

A

Thank you. [Operator Instructions] Our first question is from Michael Sullivan from Wolfe Research. Michael, your line is open.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Hey. Good morning, everyone.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Hey, Garrick. Can you maybe just give a little more clarity on what you mean by strengthened the 6% to 8% as it relates to the IRP upside? Is there any reason that we shouldn't think of that as putting you above the 8%?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Great question, Mike. Let's start here. This is a great settlement, but there's an important regulatory process that we're still in the midst of. And, just like back in 2018 and 2019, there's a few parties that are contested settlement, that's pretty typical. We anticipate that to occur over the next month in the regulatory proceeding. There's a schedule for that – a calendar for that that occurs over the month of May. And then, the commissioners will issue an order which we anticipate in late June. It could drift into July, but we anticipate late June at this point.

So, I do not want to be out in front of the commissioners on this and put the cart in front of the horse per se. But here's what I'll tell you on this. We feel good about settlement and the ability because the number of parties are on and to be able to navigate that process.

So, what it means from a plan perspective is as we shared that strengthen and lengthen our plan, it gives us great confidence in our ability to achieve the 6% to 8% toward the high end. And as we've shared, this is, again, upside to the plan, the IRP is upside of the plan.

And here's how I'd think about it. We know and we've certainly made it clear that in 2023 Covert comes into the plan in the May timeframe. That's good from a planning perspective. But remember this important piece in the 6% to 8%, we deliver each and every year and then we rebase off of actuals. So, that's an important piece – it's that compounding – that quarterly compounding [indiscernible] (00:21:46) quality of earnings which you've come to know and expect. And frankly, that allows us to view the strengthening and lengthening across the broader plan.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. Sorry, if I could just try a little more – I mean, are you trying to imply that there may just be one outsized growth here and then that's where you would rebase on – off of to – to see 6% to 8% continue off of that? Is that a fair way of reading that?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

No, I don't do – we don't do sugar highs. We've got nearly 20 years of consistent financial performance. I mean – and we're going to deliver, our plan [indiscernible] (00:22:22), and so again, I think there's a strengthening and lengthening of that plan comes from the ability to get 6% to 8% toward the high end. And we've got great confidence in that. But also this rebasing each and every year, you know our history, we deliver and then we rebase off actuals and that provides a nice opportunity to strengthen and lengthen the plan.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. Got it. And maybe going in a different direction, the electric rate case you just filed. Maybe if you could just walk us through conviction level and getting a bigger portion of the ask this time given the order late last year and maybe some differences this time around or lessons learned.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

I feel really good about this rate case that we're filing. And I'm again confident in this regulatory construct. There's been a number of signals here over the last quarter that gives me confidence in the regulatory construct. Let me start there. We had a rehearing on an electric rate case that was a positive – for us, small hours but a positive. Our gas rate case, we had Staff's position. The initial volley was constructive and a great starting spot and this IRP settlement with that – with the Attorney General provides another data point that speaks to the constructive nature of this.

We took feedback after that last electric rate case, I shared that in the last earnings call and we rewrote a lot of our testimony specifically in the area of electric reliability, enhanced and bolstered our business cases. So, this is going to be a step change and is a step change in our filing. And I'll just share that we have more work that we're working on to continuously improve that rate case process. But I feel good about our filing. It's primarily made up of electric reliability and resiliency work, important work to deliver for our customers. There's also the Covert facility is in there, there's a little bit of work on economic development. We've seen a lot of growth here in the state to support that work in this broader clean energy transformation. And so, I feel good about the case and the strength of the case and getting a good outcome.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Okay. Thanks a lot, Garrick. Appreciate it.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Jeremy Tonet from JPMorgan. Jeremy, your line is open.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hi, Jeremy.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Hi, thanks. Just want to go with IRP a little bit more. And you talked about some of the earnings uplift there. And just wondering if you might be able to share, I guess, financing needs that might be possible on the back of that. And then separately, could you walk us through the RFP that was agreed to as an alternative to the DIG acquisition and just wondering, there's been a lot of focus on the state on potentially extending Palisades. Do you think this could be an option here?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Rejji will start with the financing piece. And then we can bounce back and forth on your other questions.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. Jeremy, so thanks for the question. I'd say, with respect to the financing needs coming out of this IRP settlement agreement, we'll be obviously focused on, assuming we get approval, the acquisition of the Covert facility. And so, that would take place around mid-2023, call it, the May timeframe. And so, we would plan to fund that with debt at the utility, given our ratemaking capital structure, you can assume about half of it's funded that way, so, call it, roughly $400 million or so based on a $815 million purchase price. And then we fund the balance at the parent and we still feel quite good about the commitment to avoid issuing equity prior to 2025. And so, we would assume that the parent financing would likely include the sort of equity credit like securities that we've done in the past that are hybrids or preferred, which we have really executed at optimal levels over the last several years. So, that would be the financing plan as we sit here today, and we'll keep an eye on how market conditions evolve over that timeframe.

Garrick, I'll hand it to you for the RFP and Palisades.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. From an RFP perspective, what we agreed to in the settlement is equivalent to 700 megawatts of – a portion of it – well, 700 megawatts of load out there – capacity out there, 500 megawatts is dispatchable. And that's the nature of that and available reliable generation in the state. And then 200 megawatts is what I would put in the category of renewables and, again, purchase power agreements.

For those purchase power agreements that are not associated with the affiliate, there's the opportunity to earn the financial compensation mechanism on those and Enterprises has the opportunity to bid into that – to that 700 megawatts, primarily in the 500 megawatts that are dispatchable in nature. And so that's the nature of the RFP.

In terms of Palisades, it's important to remember we're not the owner or operator of Palisades. We've not been involved in any conversations with the Department of Energy. And if there's specific questions in this call on Palisades, I'd really direct them to Entergy, specific to the plant.

Now, our Governor came out in support of keeping Palisades operational. We're certainly supportive of our Governor and the administration. And even a broader context, we believe in nuclear energy as part of the solution here for reliable, dispatchable and clean energy across our nation and in Michigan.

Our PPA on that facility expires here at the end of May. It is an expensive purchase power agreement. And as we've shared in the course of this call, we're laser focused on reducing costs for our customers, and so that is front and center for us. We'd certainly entertain a long-term purchase power agreement – a new purchase power agreement with the facility – entertain discussions and conversation about that. But it does have to be at a competitive price. That would be important factor, and then also we expect to receive a FCM on that new PPA as well.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Got it. That's very helpful there, thank you. And maybe pivoting a bit here towards decarbonization, what investment opportunities are you seeing in support of decarbonization for the gas system? And maybe thinking about R&D a bit more, how much regulated CapEx do you think this could translate into?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

In our five-year plan, there's a hefty amount, it's about $5 billion, a little more that's – it's aimed at decarbonization of our natural gas system. Again, it's given multiple benefits You're out there replacing old pipe – vintage pipe, as we call it in services, it makes the system safer, improves reliability in natural gas system, also eliminates methane emissions, one of the leading causes of climate change. And so, we've got a target of net zero by 2030. So, those investments are being made right now over the course of the five years and we'll extend into the 10-year plan as well.

And we see our – renewable natural gas is also part of that solution. It is part of this gas rate case that's underway right now. If you get into the details of Staff's position, they were not supportive of that renewable natural gas. However, they left an opening in there, which we think we can mitigate in the course of rebuttal and move that into the utility. Some work to be done there in our gas case.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Got it. That's helpful. I'll leave it there. Thanks.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Jeremy.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Andrew Weisel from Scotiabank. Andrew, your line is open.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Morning, Andrew.

Andrew Weisel
Analyst, Scotia GBM

Q

Thank you. Good morning. First question, I want to ask a little bit more about the inflationary pressures. I appreciate all the details you gave. In the past, I think you've talked about limiting bill increases to say 2% or 3%, if I remember correctly. My question is, how confident are you about your ability to stick to that in, say, 2022 and maybe 2023, I assume widespread inflation won't be as big of a concern after that, but in the near term do you still feel comfortable with those past targets?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Everyone in this sector and even outside the sector is seeing inflation. I guess, to me, the bigger question is who do you think is best at managing that. And I would put us up to the top of the list. Our ability to leverage the CE Way and to provide cost savings for our customers is certainly – again, we talk about it as flexing our muscle here. We've got great examples of that, in 2020 we saw sales drop, we found $100 million of savings in the organization, we've got in – in 2021, in August, we had $0.16 of impact just to storms. We offset that. We have an amazing ability to be able to leverage the tools, the CE Way and then – plus automation, I would add, to be able to mitigate costs.

And so, Rejji went through a number of examples, the way we're manage that across the system. And so long-term when we look at our five-year plan and even in the short term, there's a nice ability to manage rates and keep them affordable for our customers in line with kind of traditional inflation, you might say, and I feel confident in our plan to be able to mitigate much of the impact of inflation going forward.

Andrew Weisel
Analyst, Scotia GBM
Q

Okay. Great. Next question is at Enterprises you mentioned that DIG and the peakers will likely bid into upcoming RFP. I don't expect anything too specific for obvious competitive reasons, but can you qualitatively talk about how you think of the trade-off between, say, price certainty and stability that would come with the long-term contract versus the potential for lower revenues, given the competitive nature of bidding?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

I think Rejji and I will tag team this one. Bottom line is it's something that Enterprises is going to consider. Again, I'm not certain we'll participate in that. We have the potential to participate in that RFP, and we'll make that evaluation. The capacity market is certainly, as we've seen across MISO, an opportunity as well and – for upside with our Enterprises assets. And so, there's an evaluation, we'll participate in and take a look at the impact of how DIG participates either in the bilateral market or bids into this longer term PPA with the utility.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.
A

Yeah. Andrew, the only thing I would add to that is, philosophically we've always had the mindset that we try to run our non-utility businesses like a utility in as low a beta fashion as possible. And so, if we have an opportunity to get attractive levels for energy and capacity and we can do that over the long term, you know that's generally been our bias and we've done that on the energy and capacity side at DIG for some time now. And when we owned the bank, that's how we ran the bank, as well, it's just trying to lock in as much revenue as possible and run it on a low risk basis. And so, we'll see, I think it's a function of where the market is at the time and how long the PPAs are in the bilateral market versus what might be offered in this RFP. So, we'll see what the fact pattern looks like and we'll run the business accordingly.

Andrew Weisel
Analyst, Scotia GBM

Q

Okay. That makes sense. And just lastly, what's the timing of the RFP and when you'll communicate if DIG is, in fact, participating or not – DIG and the peakers?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

I would anticipate, at least initially here, that our RFP would be issued within the fiscal year 2022.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Insoo Kim from Goldman Sachs. Insoo, your line is open.

Insoo Kim
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Thank you. First question – hey, Garrick. On the solar, you've talked about just the modular nature of it and kind of shift the timing and whatnot. But just – just holistically, or I guess, whether it's the megawatt that's kind of a build and transfer or some of the PPAs that are expected to come online, I guess, over the next couple years that will earn the financial compensation mechanism. Just your broad level of confidence, I guess, in terms of being able to mitigate any impact from what's going on in the solar space.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

I'll start with the punch line or the bottom line. No material impact to the five-year plan, continued confidence in our 2022 guidance and then continued confidence in the longer-term plan, the five years and the 6% to 8% and being toward the high end. So, that's the punch line.

Now let me tell you why. This IRP is 8 gigawatts, it's not 8 gigawatts tomorrow or even in the five-year plan. We have 15 to 20 years to build this out. So, there's considerable flexibility to be able to construct that. And just like everyone else in the industry, the Department of Commerce and this investigation slowed things up in some of our projects. These are megawatts that are going to get built – these are renewable projects that are going to get built because they're part of our broader IRP in nature.

But again, let me try to offer some context from a size perspective. We're building out owned – owned generation here, about 150 megawatts per year. So, we're talking about two projects. In 2024 we go up to 250 megawatts per year. And so, this annual capital spend is around $200 million to $250 million. This is manageable – easily manageable. And in fact, this is – I've been in operations for 20 years, this is work that happens every year, there's stuff that goes in and out of the plan based on a lot of different variables. And so easily manageable from a capital perspective.

In fact, and just as a reminder, we got $3 billion to $4 billion of capital backlog in things like electric reliability and investments in our gas system, 80% of those projects are less than $200 million. So, there's ability to put them into the plan and offer real value for our customers.

The other important part of this clean energy journey, as well as a reminder here, and although solar has been impacted, we're still progressing with wind in the State of Michigan. And we're investing a lot in the space of our hydro facilities. We have 15 hydro facilities – there's smart and thoughtful investments occurring there as well. And those are on progress, or on target. So, I feel good about that from where we're headed from a clean energy perspective.

And the last piece that I'll also point to you and I think it's an important from a capacity perspective. And I note it in my prepared remarks, Karn 3&4 continues to operate to 2031. Karn 3&4, we originally proposed retiring in 2023, and so this settlement offers some additional flexibility from a capacity build perspective. And so, again, we've got some flexibility to weather things and be able to meet all our customers' needs. So, again, feel good about the capital plan, confident in our earnings guidance both in the year and in the long term.

Insoo Kim
Analyst, Goldman Sachs & Co. LLC

Q

Understood. The second question. On those Enterprises assets, the non-regulated ones like DIG, given won't be going to rebase here with the IRP settlement. And depending on what you decide on the RFP if whether you will participate or not, how do you just think about strategically these assets now going forward as part of your portfolio?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

The Enterprises assets are important part of our portfolio, it's small but important, it makes about 4% of our earnings mix. And, again, this goes back a little bit, we used to talk about the Ferrari in the garage and then it was a Tesla in the garage. It's probably the new electric Corvette in the garage. I don't know how you want to say it, but with capacity prices, there's some certain – some upside here in some of our DIG and some of the peakers. But, by and large, this business is about renewables and customer-focused renewables and it's small in nature, and we deliver strategic solutions for our customers, hasn't changed, but it continues to be a consistent performer for our business.

Insoo Kim
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Been a while since we've heard that reference, but I think good to hear again.Thanks.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

I want to bring that back. It's a great asset for us.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Shar Pourreza of Guggenheim Partners. Shar, your line is open.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Hey. Good morning, guys.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hi, Shar. How are you?

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Great. So, just one follow-up on Palisades, Garrick, just can you remind us how many megawatts could be potentially re-PPAed under the assumption the plant can remain viable here? And obviously, the Governor highlighted that there is a potential owner that's interested in acquiring the asset. Are you having sort of any discussions right now on re-contracting, assuming – can you keep asset viable, which timing seems a little bit tight, but just curious on if there's any dialog?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

It's roughly 800 megawatts – little shy of 800 megawatts, I think around – 780 megawatts for Palisades. In line with the Governor's letter, we're certainly open to conversations and discussions. We've had some conversations more just to understand the complexities of the situation – to understand what's going on. But nothing that's really got to any level of seriousness on a long-term purchase power agreement.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Okay. Got it. And then just real quick Rejji as you're sort of thinking about financing needs. Can you just remind us on the preferred options? And do you see a potential to lean more on credit metrics just given nearly a fully regulated business mix and potentially accretive CapEx updates in the near term?

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Thanks for the question, Shar. So, we have been targeting that sort of mid-teens FFO to debt for the rating agencies for some time now. And certainly, the sale of EnerBank gave us a nice uplift, at least in the case of S&P. And so, while we do have some cushion to maybe be a little more aggressive in the funding strategy, we worked very hard to get to the level that we're at today. We've worked very hard to get the ratings we have today. And so, our intent is not to stress those metrics some. And so, we like the fact that we've got a little cushion on those metrics and if that allows us to continue to not to issue equity through 2025, we'll look to do that. And if we can extend beyond 2025, we'll look to do that, but not to the detriment of our metrics or ratings. So, we still like that mid-teens area. That's where we are. We have a little cushion there and we'll continue to plan the business that way.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

[ph] Thanks, Rejji (00:41:55). That's all the questions I have. Thanks, guys.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Shar.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Jonathan Arnold of Vertical Research. Jonathan, your line is open.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Morning. Morning, Jonathan.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Hey, good morning guys. Quick one on – just Palisades, were it to be extended – I guess whether or not that was with the PPA, how would you think about that in the context of your overall sort of IRP plan [indiscernible] (00:42:23) capacity needs?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Two pieces there, that's really – really important. It does have to be a competitive purchase power agreement, so I'll reemphasize that component of it as well. And if we were to consider that and have those conversations again, we would expect a financial compensation mechanism on those as well. Again, it just provides additional flexibility for us in clean energy. And so, we'll be a little bit long from a capacity perspective, but there's opportunities to think about different investments and give us a little more flexibility in our – even further flexibility in our solar buildout.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Okay. And then just to – Garrick, I had to go back a bit, I think it was early last year that you last gave the slide on DIG and the peakers, showing potential pre-tax earnings, step up opportunities. My question really is, is that prior disclosure still a valid one that we can think about? Or should we be looking for you to tell us something else at some point in the future, or is that still a decent guide?

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. So, Jonathan, we still feel good about the revenue opportunities at DIG, particularly now that we don't foresee it being part of the IRP. And so, I'm going to go from memory, but we were somewhere around $35 million of revenue or pre-tax earnings associated with DIG. And we still think that that's a pretty good base case to run. And what we're also seeing, probably unsurprisingly, is a tightening of the bilateral capacity market, which I think Garrick accurately noted as attractive in his prepared remarks because we do continue to see it tighten and we do expect to see even more attractive capacity and energy opportunities on the contracted side at DIG. So, I'd say base case, it's good to be around that $35 million area, but there's certainly upside opportunities in the coming years if we continue to participate in that bilateral market.

[indiscernible] (00:44:28)

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

I guess I was asking more about the $90 million that you had about $35 million stepping up from. I wasn't sure if you wanted to...

[indiscernible] (00:44:35)

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.
A

From an upside – yeah. So that's – yeah, so that working assumption was if the bilateral market went to CONE, which was at that time around $7.50 per kilowatt month. And so, in the event the bilateral market continues to tighten and gets to those levels, that certainly could be within the realm of possibility to see upside at that level. But we're certainly not planning for that given our nature. But yeah, it could be an opportunity over time if we continue to see Zone 7th tighten.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC
Q

Great. Thank you for that. And I – yeah, I think that's it. Thank you.

Austin Bauer
Communications Consultant, Consumers Energy
A

Our next question is from Travis Miller of Morningstar. Travis, your line is open.

Travis Miller
Analyst, Morningstar, Inc. (Research)
Q

Good morning, everyone.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Morning, Travis.

Travis Miller
Analyst, Morningstar, Inc. (Research)
Q

Thank you. Wondering as you did your long-term reliability modeling as part of that IRP, when did reliability get to be an issue? Is that 60-plus-percent range in 2040 with renewables? Is that about where you start to max out renewability to put into the mix?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

I wouldn't put it that way. Here is the process of an integrated resource plan. We do lots of load expectation study. There's a number of other variables. We look at it from a system reliability perspective. And so, it's an important mix of renewables and batteries, particularly in part of the plan, but also dispatchable generation. So, you get into things like gas – gas, at least in our case, natural gas and part of the plan. And so, all of those come together. This plan that we submitted was more reliable than our previous IRP in terms of the buildout. And then our extension of Karn 3&4, again, was planned to be retired in 2023 and extending that to 2031 continues to provide additional reliability over the course of this decade.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Got it. And then kind of similar on that, could we expect some of that upside in the distribution and transmission bucket as opposed to maybe more on the generation side, the upside CapEx that you're talking about?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Well, broader, we have – again, I mean looking at our 10 year – 15, 20 years, there's ample capital upside. And we have about $3 billion to $4 billion of capital that's not in the plan that our specific projects identified that improve our gas system, more replacement of mains that looks at reliability and resiliency. We've got a large $5.5 billion focus on that – I mean, much of that's in this electric rate case to improve reliability for our customers. Those are the things that fit into that plan and continue to have that long horizon of capital investment opportunities.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. And then one just real quick, would the IRP change your general kind of every year type of cadence on the regulatory filings, either electric or gas?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

The IRP won't have any impact on our rate case proceedings. So, we'll continue to stay – the main plan is to go with annual rate cases but on occasion we do stay out for a year and we have, our gas case is a great example of that, we've been out for two years and are in for a case right now.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. Thanks so much.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. Thank you, Travis.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Durgesh Chopra of Evercore. Durgesh, your line is open.

Durgesh Chopra
Analyst, Evercore ISI

Q

Hey. Good morning...

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Morning.

Durgesh Chopra
Analyst, Evercore ISI

Q

...and thank you for taking my question – good morning, Garrick. Just one for me, maybe can you just at a high level elaborate how the financial compensation mechanisms work? And then as we're thinking about our models how should we be modeling upside in terms of timing? Is this sort of gradual pickup in earnings as you sort of go through the RFPs or how does that work? Any color would be appreciative. Thank you.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. Durgesh, this is Rejji. So, the financial compensation mechanism is applied to PPAs, and we can have the team go through the math with you offline, but in essence, you're applying what is the equivalent of our after tax WACC as it stood in the 2018 IRP, just over 5.6%. And you're going to apply that to the megawatts of PPAs you're taking on as part of the IRP. And in the first IRP in 2018, it was 550 megawatts or thereabout. And so, you'd apply it to that, you also have to take into account the hours per year, the energy cost, as well as just capacity factor of the resource. And so, you put all that through the vegematic and for that first tranche of the IRP, we assume that was about $4 million of pre-tax earnings. And so, per that math, you would apply that to what we will PPA in this next IRP. And so, we've said it's about 700 megawatt RFP that will roll out, assuming we get approval in the latter portion this year, as Garrick noted. And there'll be two tranches, 500 megawatts dispatchable, 200 megawatts of other, and we'll have FCM applied to those PPA once those are resolved. Is that helpful?

Durgesh Chopra
Analyst, Evercore ISI

Q

Very helpful. Thank you. And then in terms of timing, you mentioned later this year, so these are basically – these are earnings uplifts next year. Is that the right way to think about it?

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. Let me be clear. The RFP for that 700 megawatt tranche of PPA, and again, it's going to be two tranches, one 500 megawatts of dispatchable local and 200 megawatts of other. The RFP would commence this year, but we would not effectuate the PPAs until the 2025 timeframe. And so, you wouldn't see any of the earnings associated with those financial compensation mechanism until that timeframe, I also want to be very clear that in the event Enterprises participates in that 500 megawatt tranche, then they would not be eligible for the FCM or we would not be eligible for the FCM.

Durgesh Chopra
Analyst, Evercore ISI

Q

Thank you, Rejji. That is very helpful. I'll follow up with the IR team with some more details, but this is extremely helpful. Thank you.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Austin Bauer
Communications Consultant, Consumers Energy

A

Our next question is from Gregg Orrill of UBS. Gregg, your line is open.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Morning, Gregg.

Gregg Orrill
Analyst, UBS Securities LLC

Q

Yeah, Thank you – good morning. Maybe a clarification. This might bring up an old discussion but what is the design life on Campbell units where you would earn the 9% ROE under IRP settlement?

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. Gregg, so of the three units, two of the units design life runs til 2031, that's for Campbell 1&2; and then for Campbell 3, it's til 2039. And so that's where we'd earn that 9% on the regulatory asset after the retirement date.

Gregg Orrill
Analyst, UBS Securities LLC

Q

Thanks.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Austin Bauer
Communications Consultant, Consumers Energy

A

Next question is from Julien Dumoulin-Smith from Bank of America. Julien, your line is open.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Morning, Julien.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey. Good morning, team. Hey, howdy. Thanks for the time. So, just coming back to the earlier conversation on the $0.03 to $0.04 of upside here from the IRP, can we go back to that math and just rehash it to start from the gross number and net that down? And specifically, what I was trying to reconcile is, how we think about the acquisition here sort of the gross $800 million and then reconciling that down to the $0.03 to $0.04 ultimately. It seems just a little conservative, shall we say, relative to what I would otherwise expect. And maybe we can be a little bit more explicit again, understanding some of the nuances on financing to try to reconcile that.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. Julien, so, this is Rejji. For the $0.03 to $0.04, we're assuming it's an $815 million purchase price as codified in the settlement agreement. And so, given our rate construct, you can assume, again, with our ratemaking capital structure, you're going to get 40% of that as equity and you have to net out obviously your parent funding cost. And we've made the usual conservative assumptions around that. And so that's where you get a good portion of the accretion, I noted. But then you also have to net out, I'd say, the downward revision in the ROE on the regulatory assets. And so, remember, the IRP was not incorporated into our five-year plan. And so, we were assuming we're going to earn 9.9% on those coal facilities through their design lives. And so, with the settlement agreement, a structure that's going to step down to 9%, you get a little bit of dilution there, plus dilution from the parent financing and so that's what gets you to sort of that $0.03 to $0.04.

It's also worth noting, again, clearly, we are not presupposing any outcome on the PPA of that 700 megawatt tranche. So that's not included in the math and so – we're applying the usual conservatism, but that's where the math takes us about $0.03 to $0.04, in 2023 if all comes to fruition, obviously, of a partial year, so you wouldn't get – you'd only get about six, seven months of that if we close the transaction in May as anticipated and then you get annualized about $0.03 to $0.04. Is that helpful?

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Yeah. Absolutely. I appreciate it. Yeah, I very much appreciate that. Since you bring it up here, just to keep going along that logical thought process. How do you think about that 700 megawatt PPA, I mean in terms of ownership opportunities, you seem to be in part downplaying the DIG element of this in terms of committing to bid that into that procurement process. I mean, what other avenues or shots on goal, if you want to call it, do you have for an ownership opportunity there, as you think about the array of different approaches you could take.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

To be very clear, it's certainly an opportunity for DIG, particularly or specifically for that 500 megawatt tranche, which is essentially going to be earmarked for local dispatchable – a local dispatchable resource. And so certainly DIG would qualify for that. And so that is certainly an opportunity. And as we think about the alternatives as fiduciaries, they could certainly participate in that or DIG could participate in that. And, 10-year PPA, if DIG prevails, that's a pretty attractive alternative depending on where the economics end up. But as I mentioned earlier, we're also seeing a very attractive bilateral market shaping up here in Zone 7 just with continued tightening.

And so, we are seeing levels that are in excess from our existing capacity contracts and energy contracts. And so, we'll weigh the alternatives once the RFP comes around and see what we'll do there. On the 200 megawatts, obviously DIG wouldn't be eligible for that, but we'll see what else comes around and we'll get an FCM on that. So, we're not presupposing any of those economics in the EPS I noted in my prepared remarks, but it certainly creates an opportunity for DIG without a doubt.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Yeah, indeed. All right, guys. Thank you. Best of luck.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Thank you.

Austin Bauer
Communications Consultant, Consumers Energy
A

Our next question is from Nicholas Campanella of Credit Suisse. Nicholas, your line is open.

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC
Q

Hey, good morning.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Morning.

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC
Q

Thanks everyone for taking the questions. Congrats on the IRP, thanks for all the details there. I just wanted to – sorry to belabor the point on the renewable supply chain stuff, I just – just the bottom-line takeaway is that you have, I think, roughly $700 million of clean generation spend in 2022 and then $600 million in 2023. That's all unchanged. Is that correct?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

I think the important part of that clean energy spending in those two years you referenced is it's not all solar. But there's a good portion of hydro and wind in there. And so, again, we're talking about $200 million to $250 million that would be – on an annual basis that would be in the solar area. So, that's the difference. Is that helpful?

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thanks. Thanks for the – yeah, that's very helpful. Thank you for that. And then, just – I know in the fourth quarter, you talked a lot about Covert, so I figure we can talk about some other upside opportunities. In the fourth quarter, we talked about the VGP, potential gas and electric capital upside. I know they weren't in the deck today, but maybe can you just kind of talk about where you are and potentially bringing those opportunities into the five-year plan? Is that more of a EEI fourth quarter item? And, I know we're focused on the IRP in the near term, but just what about all the other upside opportunities that are outside the plan today?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

That's great. Again, we'll take a look at this five-year plan. We're building out right now and we'll share it here in Q4. Obviously, Covert is a big piece of it. Those other elements within the IRP as well, we accelerated 75 megawatts of battery storage into the years of 2024 and 2027. So, that has to be incorporated in as new capital upside in that five-year plan, extension of Karn 3&4 has some impact as well. So, those are all additions and things that need to be worked through from a capital plan.

In terms of the Voluntary Green Pricing, that also continues to progress nicely with our customers. As they subscribe, we build out that plan. We've issued an RFP for that work. I haven't seen the results of that yet, it's still out there, but that would be potentially solar, it could be other renewables build in the 2024 to 2027 time line. So, that upside is, again, we plan conservatively is materializing. So, we're not ready to announce that yet, but directionally it looks good. Is that helpful?

Nicholas Campanella
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks. Yeah. Thank you for the time today and congrats again on the IRP.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thank you.

Austin Bauer
Communications Consultant, Consumers Energy

A

The next question is from Paul Patterson of Glenrock Associates. Paul, your line is open.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Hey, good morning.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hi. Morning, Paul.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Paul.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Congratulations on the IRP settlement. And, most of the questions have been answered here. But just, with respect to sales and what have you, is COVID over, do you think? I mean, are we now at sort of a normal level or what you think will be normal going forward or – I don't know, just hoping maybe it is?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

We're all hoping it is over, too. Let's – Rejji walk through sales piece a little bit and then I'll talk more of the macro factors. So, maybe just touch on sales, Rejji.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. So, Paul, to be clear, I won't give you a medical assessment because clearly the pandemic is still with us, I know that's not the spirit of the question, but figured I'd be remiss if I didn't say that.

But from, I'd say, a retail sales perspective, we continue to be encouraged with what we're seeing virtually across all the customer classes, as I noted in my prepared remarks. And so, whether it's commercial, we're up – 3%

above pre-pandemic levels, so looking at sort of Q1 2022 versus Q1 2019. Residential is up versus the 2019 pre-pandemic levels. So, we're still seeing that nice mix that we've enjoyed for the last couple of years. And so residential start to come back a good deal, but still hanging in there and again in excess of the pre-pandemic levels. And then on a total retail sales basis, we are about 1% above the pre-pandemic levels and industrial is about flat, excluding one large low margin customer.

So, I would say again, per my prepared remarks, I think at this point we are effectively at or better than pre-pandemic levels across most of our customer classes. And so, we feel good about the economic conditions in Michigan, and we continue to see very attractive leading indicators.

And I think it's also worth noting that of the percentages I just shared with you, that does not take into account the energy waste reduction programs we have that reduce our load year-over-year by 1.5% to 2%. So, when you exclude that, that performance looks even better. So, we feel very good on the retail sales side. But again, obviously, the pandemic is still with us. Yeah, but Garrick, I'll hand it to you if you have any other comments.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. So just some quick macro factors. So, Bloomberg recognized Michigan as the number one economy – state economy coming out of the – post-pandemic. And so that's certainly a highlight. We've been recognized as the top state for direct investment over 14,000 – really approaching 15,000 different firms that have located here in Michigan, 5,000 different locations. The big announcement with General Motors, that's not just General Motors and a host of other things, from manufacturing to agriculture and agricultural processing that have grown here in the state. So, feel good about the broader economic trends that we're seeing here in Michigan as well. Thanks for your question, Paul.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Okay, great. And just the other final thing is that there was some legislation that was recently introduced regarding outages and reliability. It seems to me that maybe it was more of a Detroit thing or that might be driving – I wasn't really completely clear. I just wondered, do you have any – any color about – you don't see this very often about what might be driving that legislative – I mean – it seems like it's some Democrats representatives or whatever that are proposing it. And I'm just wondering if you had any thoughts there...

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Our electric rate case and our plan underway certainly looks at improving electric reliability across the state to improve value for our customers. And so that's well underway. This legislation that was introduced, we don't anticipate getting any traction out of committee. That's the short of it.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Okay. Great. Thanks so much.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thank you, Paul.

Austin Bauer
Communications Consultant, Consumers Energy
A

Our final question is from Anthony Crowdell of Mizuho. Anthony, your line is open.

Anthony Crowdell
Analyst, Mizuho Securities USA LLC
Q

Hey, good morning, Garrick. Good morning, Rejji. Thanks for fitting me in here.

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.
A

Thanks.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

You bet.

Anthony Crowdell
Analyst, Mizuho Securities USA LLC
Q

Hopefully, an easy one. Where is Rocco? It's the first call I've been on without Rocco. I'm just hoping – two easy ones. I guess, following up on Mike's earlier question. And I think the question was going around maybe moving above the 6% to 8% EPS growth rate. I think, Garrick, you responded with the CMS doesn't do sugar highs, I guess. If I think about it, is there any desire of the company maybe to get back to that previous earnings trajectory that you had before the EnerBank sale?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Well, let me say – the first question is, Rocco is great. Austin is really performing well during this call, as well. Shout out to Austin.

But bottom line from the earnings glide path we had with EnerBank, we see a clear path to do so. And I would suggest that we're on that path for all the reasons I stated earlier in regards to my response to Mike. And so, I feel good about where we're headed and confident here in that growth rate in the future.

Anthony Crowdell
Analyst, Mizuho Securities USA LLC
Q

Great. And then last question, and then I'll let you guys get back to doing some work there. I guess, since the IRP filing, it appears we've moved from an energy transition theme to maybe energy security theme. Have the state regulators given any messaging on energy security that would benefit your CapEx plan?

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.
A

I would argue that we're focused on both. Again, we can't sacrifice one for the other. And so, this IRP that's settled here does both. It allows us for that clean energy transformation, as well as ensuring reliability and security of the state. And so, again, there's always some policymakers and legislators that are looking at that. And we're going to continue to look at opportunities from a capital investment perspective. But again, we feel really good about our five-year plan to balance both reliability, security of the grid as well as the planet. And I would add to it our customers and ensuring that it's affordable. And Rejji, why don't you add something as well?

Rejji P. Hayes
Executive Vice President & Chief Financial Officer, CMS Energy Corp.

A

Yeah. Anthony, the only thing I would add, just again to some of the specifics of the IRP from a capacity perspective and to Garrick's comment, this is why we feel quite good about energy security or reliability, however you want to refer to it as that the Covert facility is going to bring over 1.1 gigawatts of capacity. Again, assuming the settlement agreement is approved, we're also going to RFP shortly after approval, if all goes according to plan. The 700 megawatt tranche of PPA opportunity by 2025 and so that offers additional capacity. And again, 500 megawatts of that would be local dispatchable capacity. We're also extending the retirement or delaying the retirement of Karn 3&4, which also provides over a 1 gigawatt of capacity. And so again, we're taking obviously affordability into account, we're taking reliability into account, and we're taking obviously the clean aspects of our plan into account. And that's why we feel good about not just the economics for all stakeholders, but most importantly, reliability.

Anthony Crowdell
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my questions and looking forward to seeing you guys in Miami.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Same.

Austin Bauer
Communications Consultant, Consumers Energy

A

That concludes the question-and-answer session. So, I'd now like to turn the conference back over to Mr. Garrick Rochow for any closing remarks.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

Thank you, Austin, nice job, for our first time with Austin, and I'd like to thank all our callers and investors for joining us today. Take care and stay safe.

Austin Bauer
Communications Consultant, Consumers Energy

That concludes the conference call. Thank you for your participation. You may now disconnect your line.