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CMS Energy Corp. (CMS)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy 2019 Fourth 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 today beginning at 12:00 PM Eastern Time running through February 6. 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 Sri Maddipati, Vice President of Treasury and Investor Relations. Please go ahead.

Srikanth Maddipati

Vice President, Treasurer & Investor Relations, CMS Energy Corp.

Good morning, everyone, and thank you for joining us today. With me are Patti Poppe, 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 risk 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 Patti.

Patricia K. Poppe

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

Thanks, Sri. Thank you, everyone, for joining us on our year-end earnings call. This morning, I'll share our financial results for 2019 and our 2020 outlook. I'll discuss the roll forward of our five-year capital plan and provide an update on key regulatory matters. Rejji will add more details on our financial results as well as a look ahead to 2020 and beyond. And, of course, we look forward to the Q&A.

For 2019, I'm excited to report adjusted earnings of \$2.49 per share. We were able to achieve another year of adjusted 7% EPS growth despite record storms and a variety of headwinds throughout the year. Thanks to our unique operational capabilities that enable us to adapt to changing conditions by managing the work and driving out costs through our lean operating system, the CE Way. With 2019 results in the books, we're raising the lower end of our 2020 adjusted EPS guidance from \$2.63 to \$2.64, giving us a range of \$2.64 to \$2.68 with a bias to the midpoint, which is up 6% to 8% from the actual result we achieved in 2019.

As we roll our plan forward one year, it reflects an additional \$0.5 billion in our five-year capital plan at the utility, which supports our long-term annual adjusted EPS and dividend growth of 6% to 8% and is in line with our previously announced 10-year \$25 billion customer investment plan.

While there's been a lot of recent discussion around ESG, it's a topic that is not new to us. Our continued success at CMS is driven by our commitment to deliver on the triple bottom line of people, planet and profit. We don't trade

one for the other. So, while 2019 marked our 17th year of industry-leading EPS growth, it was also a remarkable year for our commitment to people, our customers and co-workers, and our planet.

Our customers awarded us our highest JD Power Customer Satisfaction scores ever and named us Number 1 in the Midwest for residential gas. Those satisfied customers were served by a highly engaged and diverse workforce. Our accomplishments on the planet include: reaching a settlement in our Integrated Resource Plan; the announcement of our net-zero methane emissions goal by 2030 for our gas delivery system; and restoring over 1,500 acres of land in our home state.

Our ability to meet our triple bottom line is underpinned by world-class performance. And we delivered our best ever customer on-time delivery metric, eliminated more than \$20 million of waste through the implementation of the CE Way, settled our electric rate case for only the second time in our history, and received a gas rate case order that allows us to invest significantly in the safety and reliability of our large and aging gas system. Although 2019 has been another excellent year of solid performance and record achievements, we are still dissatisfied. We'll continue to keep improving as we work to deliver our financial and operational commitments year-after-year.

Now, every year you'll see the ups and downs that come our way as illustrated on slide 6. And every year, our unique capability of adapting to changing conditions enables us to deliver the results you expect year in and year out. In 2019, we were met with challenge after challenge as storm restoration costs surpassed our full-year budget just six months into the year. But we don't make excuses for storms or other weather-related impacts on revenue. This is what I love about our model, where we ride the roller coaster for you, so you can enjoy the smooth and predictable outcome highlighted by the green line. This model has served our customers and you over the last decade plus, and we'll continue to utilize it going forward.

I feel compelled to give a shout out to the entire CMS Energy team for the tenacity and the agility they demonstrated in 2019. Given the headwinds we faced and challenges we overcame, I could not be more proud of the results and thankful for the efforts of my coworkers.

Like we do every year, we're celebrating on the run and moving on to our next set of priorities and setting new goals. With 2019 behind us and as we prepare to deliver in 2020, we'll continue to make progress on ensuring the safety of our gas system, driving customer satisfaction and delivering on our Clean Energy Plan.

The goals we've set for ourselves in 2020 are ambitious. And as always, they're fueled by the continuing maturity of our lean operating system, the CE Way. Our ability to execute on our capital plan and make the investment our system needs will depend on our ability to see and eliminate waste wherever it is. As we continue to mature in the CE Way, we are creating a culture where all of our coworkers are both motivated and able to fulfill our purpose, world-class performance, delivering hometown service. These simple words mean a lot to us.

Our systems capital demand at the utility continue to grow. And to that end, we're rolling our capital plan forward an additional year, which will increase the spend over the next five years to about \$12.25 billion and supports rate-based growth of 7% over that period. This increase reflects the continued ramp up in annual capital investments in our electric and gas infrastructure to improve the safety and reliability of our systems as well as increased investments in solar generation assets agreed to in our IRP, which was approved by the commission last year.

It's worth noting that only about 15% of these projects over the next five years are above \$200 million, and about 75% of those projects are addressed in multi-year commission orders such as the IRP, which mitigates risk and provides more certainty around execution and regulatory outcomes. We'll also remind you that our five-year

customer investment plan is limited not by the needs of our system as that stretches vast and wide across the great state of Michigan, but instead by balance sheet constraints, workforce capacity and customer affordability.

Looking now toward regulatory matters, with the 2016 Energy Law fully implemented and with the benefits of tax reform addressed in recent commission orders, our regulatory calendar for 2020 is much lighter than in recent years. Last year, we agreed to stay out of an electric rate case and the strategy served us well, as we were able to capitalize on some of the cost performance efforts by leveraging the CE Way. Now, we'll have the opportunity to funnel some of those cost savings back to our customers and offset some of the capital investment need. Coupled with our efforts to ramp our energy efficiency savings to 2% by 2021, we'll keep customers' bills affordable. We anticipate filing our next electric rate case by the end of this quarter.

In December 2019, we filed a request in our gas rate case for \$245 million of incremental revenue, including a 10.5% ROE and an equity ratio of 52.5% relative to debt, as we continue to focus on the safety and reliability of our gas delivery system. This case builds on the order in our last gas case where nearly all the capital investments were approved, because you would expect the needs of our system haven't changed that much in just one year.

In conjunction with our gas case, we also filed our 10-year natural gas delivery plan, which provides a detailed look into the long-term needs of our gas delivery system and supports our 10-year capital plan. We're thankful for the constructive regulatory environment in Michigan that allows for timely rate orders and forward planning and the commission's commitment to working with us to continuously improve the safety and reliability of our system.

I'll remind you, regardless of changing conditions around us, our triple bottom line and simple business model have served our customers and investors well and allows us to perform consistently year in and year out. As highlighted on slide 10, our track record demonstrates our ability to deliver the consistent premium results you've come to expect year after year after year. And this year, you can expect the same.

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

Rejji P. Hayes

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

Thank you, Patti, and good morning, everyone. Before I get into the details, I'd like to share the wonderful news that Travis Uphaus, from our IR team, and his wife Marylin welcomed their seventh child, Mara Christine Uphaus, on Tuesday morning. So, we are wishing the Uphaus family our very best from our headquarters in Jackson, Michigan.

As Patti highlighted, we're pleased to report our 2019 adjusted net income of \$708 million or \$2.49 per share, up 7% year-over-year. Our adjusted EPS excludes select non-recurring items, including estimated severance and retention costs for our coworkers at our Karn coal facility, which is scheduled to be retired in 2023, as well as the recognition of an expense related to the potential settlement of legacy legal matters.

2019 results of the utility were largely driven by constructive outcomes in our electric rate case settlement in January of 2019 and the gas rate order we received in September, which are partially offset by heavy storm activity, particularly in the first three quarters of the year. Our non-utility segments beat guidance by \$0.02 in aggregate largely due to low-cost financings at CMS Energy and solid performance from EnerBank.

As we review our full suite of financial and customer affordability targets for 2019 on slide 12, you'll note that in addition to achieving 7% annual adjusted EPS growth, we grew our dividend commensurately and generated

approximately \$1.8 billion of operating cash flow. Our steady cash flow generation and conservative financing strategy over the years continue to fortify our balance sheet as evidenced by our strong FFO-to-debt ratio, which is approximately 17.5% at year-end and required no equity issuances in 2019.

Lastly, in accordance with our self-funding model, we effectively met our customer affordability targets by keeping bills at or below inflation for both the gas and electric businesses, all while investing a record level of capital of approximately \$2.3 billion at the utility.

Moving on to 2020, as Patti noted, we are raising our 2020 adjusted earnings guidance to \$2.64 to \$2.68 per share, which implies 6% to 8% annual growth off of our 2019 actuals. Unsurprisingly, we expect the utility to drive the vast majority of our consolidated financial performance with the usual steady contribution from the non-utility business segments. One item to note is that Enterprises' EPS guidance is slightly down from their 2019 results given the absence of a gain on the sale of select assets in the second quarter of 2019. All in, we'll continue to target the midpoint of our consolidated EPS growth range at year-end.

To elaborate on the glide path to achieve our 2020 EPS guidance range, as you'll note in the waterfall chart on slide 14, we plan for normal weather, which in this case amounts to an estimated \$0.06 of negative year-over-year variance given the colder-than-normal weather experienced in 2019 to the benefit of our gas business. We anticipate that cost reduction initiatives largely driven by the CE Way and other expected sources of year-over-year favorability, such as lower storm restoration expenses after an unprecedented level of storm activity last year, will fully offset the absence of favorable weather in 2019. It is also worth noting that we capitalized on an opportunity to fully fund our defined benefit pension plan earlier this month, which provides additional non-operating cost savings and EPS risk mitigation.

Moving on to rate relief. We anticipate approximately \$0.17 of EPS pickup in 2020. As mentioned during our Q3 call, about two-thirds of this pickup has already been approved by the Commission in the gas rate order we received in September, and the approval of our renewable energy plan in the first quarter of 2019. We'll expect the final order in our pending gas case in October of this year, which effectively makes up the balance of our expected rate relief driven EPS contribution in 2020. While we plan to file an electric case in Q1 of this year, the test year for that case will start in 2021.

Lastly, we apply our usual conservative assumptions around sales, financings and other variables. As always, we'll adapt to changing conditions and circumstances throughout the year to mitigate risk and increase the likelihood of meeting our financial and operational objectives to the benefit of customers and investors.

As we work toward delivering our 2020 EPS target, we remain focused on cost reduction opportunities within our entire \$5.5 billion cost structure, the core components of which are illustrated on slide 15. For well over a decade, we've managed to achieve planned and unplanned cost savings to mitigate intra-year risk and create long-term headroom in our electric and gas bills to support our substantial customer investments at the utility.

As we look to 2020 and beyond, we continue to believe there are numerous cost reduction opportunities throughout our cost structure. These opportunities include, but are not limited to, the expiration of high priced PPAs, the retirement of our coal fleet, capital-enabled savings as we modernize our electric and gas distribution systems, and the continued maturation of our lean operating system, the CE Way.

These opportunities will provide sources of intra-year risk mitigation, as well as a sustainable funding strategy for our long-term customer investment plan, which will keep customers' bills low on an absolute basis and relative to other household staples in Michigan as depicted in the chart on the right-hand side of the page.

Moving on to weather-normalized sales. As we have discussed in the past, economic conditions in Michigan remain positive, particularly in our electric service territory which is anchored by Grand Rapids, one of the fastest growing cities in the country as evidenced by the statistics on the upper left-hand corner of slide 16.

And when it comes to Michigan's economy, we are not passive participants. In fact, in addition to directly investing billions of dollars throughout the state annually, we collaborate with key stakeholders across the state to drive industrial activity through our economic development efforts. These efforts have attracted nearly 300 megawatts of new electric load in our service territory since 2016. And in 2019 alone, the contracts we signed will support over 3,600 jobs and bring in more than \$1.5 billion of investment to Michigan.

A prosperous Michigan, supported by our economic development efforts, offers multiple benefits to our business model. In the near term, it drives volumetric sales which support our financial objectives and longer term, it creates headroom in customer bills by reducing our rates. As mentioned in the past, we also continue to see a positive spillover effects of said industrial activity on our higher margin residential and commercial segments over time in the form of steady customer count growth and favorable load trends.

As you'll note in the charts in the right-hand side of the slide, we've seen average residential load growth of 1% and 1.5% to the electric and gas businesses, respectively, over the past five years when normalized for weather and our energy efficiency programs.

To summarize our financial and customer affordability targets for 2020 and beyond, we expect another solid year of 6% to 8% adjusted EPS growth, solid operating cash flow growth, exclusive of the aforementioned discretionary pension contribution, and customer prices at/or below inflation. From a balance sheet perspective, we continue to target solid investment grade credit metrics. And as you'll note, our equity needs are approximately \$250 million in 2020 due to the previously noted deferral of our equity issuance needs in 2019.

We expect our equity needs to be roughly \$150 million per year in 2021 and beyond, which can be completed through our ATM equity issuance program which we'll likely file along with our shelf during the first half of this year. Our model has served our stakeholders well in the past as customers receive safe, reliable and clean electric and gas at affordable prices and our investors benefit from consistent industry-leading financial performance.

On slide 18, we've refreshed our sensitivity analysis on key variables for your modeling assumptions. As you'll note, with reasonable planning assumptions and robust risk mitigation, the probability of large variances from our plan are minimized. There will always be sources of volatility in this business be they weather, fuel costs, regulatory outcomes or otherwise. And every year, we view it as our mandate to do the worrying for you and mitigate the risk accordingly.

And with that, I'll hand it back to Patti for her concluding remarks before Q&A.

Patricia K. Poppe

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

Thank you, Reiji. Our investment thesis is compelling and we'll serve our customers, our planet and our investors for years to come.

And with that, Chad, would you please open the line for Q&A?

QUESTION AND ANSWER SECTION

Operator: Certainly. Thank you very much, Patti. [Operator Instructions] The first question will come from Greg Gordon with Evercore ISI. Please go ahead.

Greg Gordon

Analyst, Evercore ISI

Hey. Good morning, Patti, Rejji.

Q

Patricia K. Poppe

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

Good morning, Greg.

A

Rejji P. Hayes

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

Good morning, Greg.

A

Greg Gordon

Analyst, Evercore ISI

Couple questions on the year. So, Rejji, did you say that small asset sale gain from Enterprises was in the second quarter, is that correct?

Q

Rejji P. Hayes

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

That's right.

A

Greg Gordon

Analyst, Evercore ISI

Can you just give us a little more description of what asset it was and what you saw and the rationale for that?

Q

Rejji P. Hayes

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

Absolutely. So, Enterprises, specifically DIG, had some transmission related assets. The informal parlance is switchyard assets which they sold to ITC Transmission in the second quarter. And so, we booked a gain of roughly \$16 million or \$0.04 in Q2. That was part of our plan throughout the year, which is why you'll see sort of an aberrant trend between our 2019 actuals and what we anticipate for 2020.

A

Greg Gordon

Analyst, Evercore ISI

Understood. I may be wrong, but I think you're breaking EnerBank out separately now for the first time. I'm happy to get the incremental disclosure, but can you just give us the rationale for that? And then I have one more question.

Q

Rejji P. Hayes

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

A

Yeah, happy to. So, EnerBank this year, and they had a wonderful year as Patti noted, they hit about a little over \$2.6 billion in assets which is in excess of 10% of our consolidated asset threshold. And so, we chose to report out the segment at this point.

Greg Gordon

Analyst, Evercore ISI

Q

Great. My final question is, the decision to fund the pension. How much in sort of in dollars did you top off the pension? And can we think about the financial benefit of that being sort of the delta between the financing costs and the expected pension return?

Rejji P. Hayes

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

A

Yeah. So, starting with your last question first. Yes, we did take into account and you should assume that the EPS-related pickup is net of the funding costs. And so, we anticipate about \$0.05 of earnings per share upside attributable to that. The amount, and you'll see this in the appendix, is a little over \$530 million. And so that allowed us to fully fund our inactive (sic) [active] defined benefit plan.

Greg Gordon

Analyst, Evercore ISI

Q

And that was funded off from a parent infusion or from off of the actual operating company balance sheet?

Rejji P. Hayes

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

A

The latter. So, we did a term loan in the interim at Consumers Energy. And it's interesting. The term loan funding of that was about \$300 million. We actually had a little bit of excess cash flow that allowed us to fund it with a bit of excess cash which also helped the EPS accretion attributable to that.

Greg Gordon

Analyst, Evercore ISI

Q

Okay. Thank you all very much. Have a great morning.

Rejji P. Hayes

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

A

Thank you, Greg.

Patricia K. Poppe

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

A

Thanks, Greg.

Operator: The next question comes from Julien Dumoulin-Smith with Bank of America. Please go ahead.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning, team.

Rejji P. Hayes

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

A

Morning, Julien.

Patricia K. Poppe

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

A

Morning, Julien.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Hey. So, perhaps just kicking off first as usual with focus on the CapEx in the upward trend and nicely done on the upwards of \$0.5 billion increase here as you go forward. Can you talk a little bit about the upside trajectory? I suppose if you take that \$0.5 billion of just kind of the latest single year in isolation go forward and you continue to do that, you end up somewhat in excess of your kind of 10-year plan. So, obviously, you talked about this a little bit. But perhaps this might be an opportunity to elaborate a little bit.

And then, I'll drop my second question at the same time. DTE had some pushback on their latest process on procurement in their IRP. Any reasons in respect to your ongoing efforts on the renewable side specifically? I just want to clarify that.

Patricia K. Poppe

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

A

Well, I'll take the first part, and will let Rejji take the second part, Julien. The capital plan, the \$25 billion capital plan does have fluctuations year-to-year some. And you'll see, we've got a five-year look in the appendix of the deck. So, you can see what the plan is by year. And we do have some opportunities in that \$25 billion, and we talked about that after the third quarter. There's certainly demand for additional spend on electric reliability and grid modernization and our gas business.

And as always, we're working to balance the competing demands for capital internally, having our internal capital battles if you will, but also making sure that our bills remain affordable, making sure that the capacity to do the work is possible, so that we have good credibility with our regulators that we do, what we said we're going to do. And so, the upside that you see in this first five-year forward adding additional year is the natural fluctuation. But it all supports the \$25 billion plan and that supports our 6% to 8% growth trajectory.

Rejji P. Hayes

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

A

Yeah. Julien, you also just asked about what could allow us to – I think if I heard you correctly, just dip into those upside opportunities. And as Patti and I have talked about in the past, the constraints are primarily customer affordability. And so, that is the primary constraint on whether we'll be able to dip into those upside opportunities of \$3 billion to \$4 billion in that 10-year plan, as well as balance sheet constraints and potentially workforce capacity. And so, over time, as all of those potentially move favorably, we'll consider recalibrating. But for now, that's where the plan sits.

Now, getting to your second question related to – if I heard you correctly again, the feed wasn't all that good, but it sounded like a potential reaction to, I think, the ALJ's decision and DTE's Integrated Resource Plan. Needless to

say, we're not going to speak for DTE on their regulatory filings. But if you're asking whether that has an impact on our IRP and the execution of our IRP, the answer to that is no. We obviously just concluded the RFP.

Well, first, we got approval for our IRP in mid last year and we just concluded in September or deep into Q4, the request for proposal for the first tranche of 300 megawatts of solar. And this is part of a longer-term effort to really build out solar generating assets to the tune of 6 gigawatts by 2040. And this first tranche, call it, 1.1 gigawatts that were approved in the settlement, we just did about 300 megawatts this year. We'll do another 300 megawatts in RFP in September this year. And the balance of 500 megawatts in 2021, half of which will be rate-based, half of which will be PPA'd. And so, we're in execution mode and obviously we'll look to file a new IRP in June of 2021 per the settlement. So, that's where we stand on that.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

All righty. Excellent. I'll leave it there. Thank you all. Best of luck.

Rejji P. Hayes

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

A

Thank you. Thank you.

Patricia K. Poppe

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

A

Thanks, Julien.

Operator: The next question will be from Michael Weinstein with Credit Suisse. Please go ahead.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning, guys.

Patricia K. Poppe

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

A

Good morning, Michael.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. I just wanted to confirm that the extra \$500 million of capital spending that's planned for the next five years is not part of the \$3 billion to \$4 billion of upside opportunities, right? Because the total 10-year plan didn't really change that much.

Patricia K. Poppe

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

A

That's right, Michael. You've got that right. This is just the one-year roll forward. So, it shows the modification in the plan.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. So, is it an acceleration of spending that you would have done in the second 5-years of that 10-year plan basically?

Patricia K. Poppe

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

A

No, it's right in line with our plan. It adds some additional of the IRP solar that was approved, as well as some additional electric reliability. And really, you can plan on fluctuation between the gas, the electric, the renewable parts of the spend as the years go forward, so that we can optimize that capital spend to the benefit of customers. And again, mitigating the challenges that Reiji articulated around affordability, balance sheet, we're always just working the plan to have the highest value capital year-after-year.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Right. And also I wanted to confirm that there's no incremental equity need from any of that either? Obviously, it doesn't look like the plan changed at all in equity and that this is all...

Reiji P. Hayes

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

A

That's correct, Mike.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

It's all ATM and internal programs, right, there's no block equity?

Reiji P. Hayes

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

A

That's correct.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And one thing maybe you could talk a little bit more about is, you discussed a little bit about the attraction of new commercial and industrial customers in your territory. And can you discuss the potential impacts on electric load and on your industrial customers as electric vehicles gain traction across the supply chain for the auto industry?

Patricia K. Poppe

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

A

Yeah. I would say the industrial load that we're seeing being added actually ends up being very unrelated to automotive. Michigan is more and more diversified. We've had some big Ag customer additions and some pharma additions. And so, I would say, if anything, we're seeing some diversification in Michigan in our makeup of our industrial rate base. But I would also say – or our industrial customer base.

But I would also offer on the EV front that as the Chair of the EEI Electric Transportation, as the Co-Chair of that committee, I've had an opportunity to really get exposed to some of the national fleet operators. We had Amazon,

for example, at our National EEI meeting in January, talking about their ambitions to electrify their fleet. I see that as a big opportunity. Load growth for electric per capita certainly has not had significant increases. In fact, it goes down in many cases as equipment gets more efficient, lighting gets more efficient. And I see this fleet potential to be actual load growth potential in the future as their ambitions materialize.

Now I will tell you, it's not going to sneak up on us because first of all, they need to have electric transportation at the fleet scale available, the actual vehicles, the trucks, et cetera. And that development cycle is not fast. But then, we'll be working with them to site their charging stations and make sure we maximize the benefit to the grid and minimize the addition to peak demand. So, I think it's a great opportunity frankly for the industry. And Michigan will certainly be participants in that.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

That's super. Thank you very much.

Q

Rejji P. Hayes

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

Thank you.

A

Operator: The next question will be from Praful Mehta with Citigroup. Please go ahead.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Thanks so much. Hi, guys, and congrats on a good quarter.

Q

Patricia K. Poppe

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

Thanks, Praful.

A

Rejji P. Hayes

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

Thank you, Praful.

A

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

So, maybe first a more big picture step back question. Utilities clearly have been doing well in the current stock price environment and CMS clearly doing well too given the execution. Do you think there is any use of that currency from your perspective, M&A or otherwise, that you think you can look at or execution is primarily the focus at this point?

Q

Rejji P. Hayes

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

Yeah. Praful, our position on M&A versus organic growth has been consistent for some time, and we are fully focused on executing on our capital plan. We've got enough to do within our walls. And as I've said in the past, we're paying 1 times book to fund those capital investments. I'd rather do that than pay a premium for somebody else's CapEx backlog. So, we are acutely focused on executing on our plan.

A

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Fair enough. Makes sense. Then just quickly on the operating cash flow. When you're looking at the slide 17 and you say up \$100 million from the 2020's \$1.7 billion, just can you walk through that? What's the increase that you're kind of seeing in the long-term plan? And I guess, connected to that, I also saw increased NOL utilization on slide 23. So, just try to understand a little bit of the drivers around the operating cash flow.

Rejji P. Hayes

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

A

Yeah. So, Praful, as you may recall, prior to the enactment of tax reform at the end of 2017, we were on this very healthy trajectory of about \$100 million of year-over-year or at least year versus prior year budget OCF accretion per year. And it has to do with just the very nice fundamentals of this business. I mean, we're investing capital, growing rate base, getting solid customer receipts, and I'll give full credit to our folks who manage working capital very well on our team as well. And so, it's just a nice healthy byproduct of all of that good work there.

And so, the only reason we paused slightly was just due to tax reform and the cash flow degradation effects of that. So, we basically took a two-year pause on that level of growth. And so, we guided in 2018 at \$1.65 billion. We managed to exceed that. And again, we guided in 2019 at \$1.65 billion and managed to exceed that again.

And so, now we feel like, again, relative to what we budgeted the prior year, we'll be back on that sort of \$100 million per year increase starting this year in 2020. And so that's what we have in the forecast. And we feel very good about that, particularly given the magnitude of the capital investment plan, our ability to manage our costs. And, again, just execute well on the working capital front. And so, we feel like we have a very nice glide path to continue on that trajectory.

Now, as it pertains to NOLs and credits, we obviously had a significant re-measurement going back to tax reform on our NOLs. We still think we got a little bit of utilization left of what's remaining. But then also, we still have quite a few business credits that we've accumulated over time. And we expect modest accretion of that, just given some of our efforts in the renewable side. And so that's where you see still a decent amount of, I'll say, a combination of NOLs and tax credits. And so, at this point, we don't expect to be a federal taxpayer until, call it, 2024. There's a modest amount that we'll pay in 2023 based on our forecast but really not – a partial taxpayer until 2024. Is that helpful?

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Q

Yeah. That's super helpful. Thanks for that. And just finally in terms of storm impacts and storm costs, in the current rate case filing, is there any plan to change what gets recovered or what is allowed to be recovered in terms of storm costs?

Patricia K. Poppe

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

A

Yeah. In our next electric rate case, certainly we want to reflect the average service restoration expenses. And what we've been recovering in rates is less than what we've actually experienced on the last five-year average. And so, we want that to be reflected. But we also want and believe that with the age of the system that our increased spend in both the fundamental reliability of the system, we've been increasing both the actual spend as well as the requested spend. We think there's a lot of justification for that to keep up with the age of the system.

And so, we'll continue to ramp the reliability spend, but we also want accurate reflection of the operating expense associated with service restoration, while frankly at the same time, we're working to reduce the cost of every interruption by making our processes more efficient, by making our utilizing technology to respond faster and at a lower cost. And so, we're doing both simultaneously.

Praful Mehta

Analyst, Citigroup Global Markets, Inc.

Got it. Super helpful. Congrats again, guys.

Q

Patricia K. Poppe

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

Thank you.

A

Rejji P. Hayes

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

Thank you.

A

Operator: And our next question comes from Shar Pourreza with Guggenheim Partners. Please go ahead.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Hey. Good morning, guys.

Q

Patricia K. Poppe

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

Good morning, Shar.

A

Rejji P. Hayes

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

Good morning, Shar.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Just couple questions. On your annual CapEx guide in your disclosures that's closer to the back of the slide deck. There's obviously some shuffling of spend between 2020 and 2021. Can you just remind us what actually drove this? And can you maybe talk a little bit more about the new CapEx you're introducing towards the back end, really more specifically on the mix between gas and electric?

Q

Rejji P. Hayes

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

Yeah, sure. Sure, Shar, happy to take that. So, a little bit of shift that you probably have noticed between what we're expecting or what we were expecting in 2020 in our prior five-year plan that we rolled out in Q1 of last year instead of this five-year plan. It has everything to do with just the timing of the rate case and the forward test years. And so, this current vintage now that we're a year smarter reflects the magnitude of spend we expect in

A

2021. And that aligns nicely with the gas case that's pending that we filed in December of last year and with the electric case we'll likely file in Q1 of this year.

And so, that's really why you see that shifting between 2020 and 2021. And what we've always said, and this remains true to form is that, the absolute amount or the quantum of capital we anticipate spending on a five-year period, one-year period is always pretty consistent but the composition does change over time. And sometimes you get shifts intra-year. And so, that's effectively what you're seeing.

And then for the outer years, I think Patti did a nice job summarizing this. We're just basically losing 2019 from the prior vintage and rolling in another year. So, going from a 2019 to 2023 plan to a 2020 to 2024 plan and as part of that roll forward, you're seeing an expansion more of the solar generation will be attributable to the IRP. So, taking on that sort of final tranche of, call it, 250 megawatts that we'll rate base, and then you couple that with additional spend in both our electric distribution reliability-related capital investments, as well as gas infrastructure spend. And so, those are kind of the pieces you're seeing in the back end of that five-year period.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Got it. Got it. And sorry, and then, Patti, just sorry to beat a dead horse on this but I just have a follow up on that incremental capital opportunities you guys have been highlighting. It seems like you're managing O&M well. You have bill headroom that continues to improve, the economic backdrop remained strong in your service store as you kind of highlight. You do have sort of balance sheet capacity. So, I'm kind of curious as what are the drivers that we are missing as far as you look to pull forward some of that spend?

Is there anything else outside of just managing towards that 7% growth target that midpoint? Is it a function of trying to find the optimal capital projects internally? So, what's sort of the offset still drivers because it seems like the drivers seem to fit towards you accelerating spend versus not?

Patricia K. Poppe

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

A

Yeah. One thing I'll tell you about our 10-year capital plan, I think some people might argue that it's impossible to have a 10-year capital plan because conditions change so much, or you don't know enough about the future. I can tell you, our 10-year capital plan has a significant amount of meat on the bone. And what we intend to do is make sure that we are able to execute the work that we have committed to.

And so, I'll tell you the ramp up of capital requires a significant operational and ability to execute and prepare the workforce, and when we hear nationally about constraints on ability to attract talent and to build out a workforce, we have to attract the workforce to deliver all that work. And so that – we want to make sure it is well timed and well planned so that we do precisely what we said we're going to do.

And it's also important that from an affordability standpoint that our customers are able to pay and would value the investments that we'd be making on their behalf. So, really customer affordability continues to be front of mind. And as an operator myself, I want to make sure my team is ready and prepared to execute the work that we commit to. It's easy to write a number in a spreadsheet. It's another thing to go dig the trench and lay the wire and roll the truck. So, we've got to make sure that we're ready all the way around.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Got it. So, the human capital aspect is a bit of a constraint.

Patricia K. Poppe

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

You bet.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Okay great. All right. Thanks so much guys. Congrats again.

Q

Rejji P. Hayes

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

Thanks, Shar.

A

Patricia K. Poppe

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

Thanks, Shar.

A

Operator: Our next question will be from Jonathan Arnold with Vertical Research. Please go ahead.

Jonathan Arnold

Principal, Vertical Research Partners, LLC.

Good morning, guys.

Q

Patricia K. Poppe

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

Morning, Jonathan.

A

Rejji P. Hayes

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

Good morning to you, Jonathan.

A

Jonathan Arnold

Principal, Vertical Research Partners, LLC.

Thanks for taking my question. I was going to ask you about the shift in the CapEx from 2020 to 2021, and I think you've addressed that. So, thank you for that. Just one other issue. Now you're giving this breakout of Enterprises, EnerBank and the parents, which it sounds like you'll continue to do that going forward given the size. But should we think, Rejji, about the parent, roughly consistent going forward with this number you're showing for 2020 or is that going to move around out in the five-year plan?

Q

Rejji P. Hayes

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

Oh, it should increase over time, Jonathan. Because keep in mind, that's largely at this point interest expense at the parent and we have \$12.2 billion of capital investments that we're going to be funding over this period. And so, obviously, we do the best we can in terms of getting low interest rates realized in our debt financings. But we just

A

assume with the new money we'll be raising that that interest expense should come up over time or increase over time. And so, we do expect that segment to increase. Every now and then we overachieve of course, because Sri and his team have been very good at getting financings at lower rates than anticipated, but conservatively, we'll assume that segment does increase.

Jonathan Arnold

Principal, Vertical Research Partners, LLC.

Q

Okay. So, it can just basically financing of a portion of the underlying growth. I think that's it. I already wanted to ask on the CapEx. Thank you.

Patricia K. Poppe

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

A

Thanks, Jonathan.

Rejji P. Hayes

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

A

Thanks.

Operator: And the next question will be from Ali Agha with STRH. Please go ahead.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning.

Patricia K. Poppe

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

A

Good morning, Ali.

Rejji P. Hayes

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

A

Good morning.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. First question, Patti, can you just remind us again as you're looking at the sales data, roughly how much on an annual basis does energy efficiency sort of take away from the sales numbers?

Rejji P. Hayes

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

A

Yeah. So, and it's been basically come out of the new – well, I can't call it new so much anymore, but the 2016 Energy Law, Ali. And so, we have a 1.5% year-over-year reduction target that we get economic incentives on. And so, you take the prior year's load and then you reduce that by 1.5% and we do that through all of the nice programs we have on rebates on LED light bulbs and things of that nature.

And so that's where historically we've been for the last two years. Our current five-year plan, and we've been very public about this is, part of our IRP is to expand those energy waste reduction programs. And so, we're on a glide path to get to a 2% year-over-year reduction. And so that'll be about 2% of our prior year's load.

And so, I just want to reemphasize that we do get economic incentives on those programs. And so, historically, that's been a run rate of call it \$34 million pre-tax combined electric and gas. And so, as we glide path to that 2%, that amount of pre-tax income will crest at about \$47 million towards the latter years of this plan. And we anticipate about \$41 million in 2020 alone as we glide path up. And so, we anticipate again 1.5% to 2% reduction in load as part of that. And remember, it also gets trued up in rates as we file new cases. And so, that is also something worth noting.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And so, just to be clear, if I look at the numbers for calendar 2019, as reported weather normalized was negative 1.4%. If we adjust that for energy efficiency, then it should be relatively flat. And I know you're sort of on an apples-to-apples basis looking at that being up 1%, I believe, in 2020 and perhaps beyond that. So, can you just talk a little bit more about that dynamic, that load growth going up to 1% and beyond?

Rejji P. Hayes

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

A

Happy to. And we actually tried to get in front of that question because it comes up quite a bit by offering this new slide 16 in the presentation. But you're thinking about it, Ali, the right way. And so, if you look at that blended weather normalized electric load for 2019 versus 2018, 1.4% down, think of that as flat. I'll also note what's embedded in that 1.4% is a reduction in volume from a very large low margin customer. And so, when you back out the effects of that large low-margin customer, our weather normalized sales goes from 1.4% down to about 0.5% down. And then if you take up effects of energy efficiency, well now, you're up 1%.

And you can look across all of our channels for electric and see that trend which we think is the right way to think about it. So, residential flat, so again, you normalize for energy efficiency, you're up 1.5%, commercial down 1.1%. You normalize, you're up 0.5%. And we have seen those organic trends in our customer counts just to make sure that we're not being too scientific here. And so, we feel quite good about that and think there is very healthy economic growth in our service territory and particularly with the high margin part of our supply chain – oh sorry, our customer segments.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got you. And one last question. I know as you mentioned that the 2016 Energy Law is fully implemented, et cetera. Anything of note in this year's legislative session for us to keep an eye on that may be relevant to you folks or something that you guys are keeping an eye on as well?

Patricia K. Poppe

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

A

No, Ali, I would suggest that particularly here in Michigan, there's nothing really being driven by the elections this fall. Certainly the presidential election is going to be a big distraction. We do have our whole State House, of course, have two-year terms and our congressional districts have two-year terms. And so, there's re-election. Our Governor did her State of the State last night and she doubled down on her commitment to fix the damn roads here in Michigan. That's her slogan, not mine.

And so, we're happy to support the investment in infrastructure. And frankly, as we do more road repairs, it's a great opportunity for us to collaborate with our Department of Transportation and our construction work here in Michigan to do our investment and infrastructure at a lower cost for all citizens. So, I would say nothing, though, new from a legislative agenda here in Michigan.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Got it. Thank you.

Q

Patricia K. Poppe

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

Yeah.

A

Operator: The next question comes from Travis Miller with Morningstar. Please go ahead.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Thank you. Good morning.

Q

Rejji P. Hayes

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

Good morning, Travis.

A

Travis Miller

Analyst, Morningstar, Inc. (Research)

On the gas case, I was wondering if you could lay out some of the, I hate to use the word, contentious, but some of the more debatable issues that you see coming up there. And in particular, the ROE and the decision to go with the higher request.

Q

Patricia K. Poppe

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

Yeah. Well, a couple things, Travis. First of all, as I mentioned, we have this 10-year natural gas delivery plan that we filed with our case. And that plan has been well-vetted with and actually collaborated with our staff at the commission and its development in aligning on our priorities. One thing I can firmly applaud our commission for is, their commitment to being able to see long-term plan so they can make better decisions in a one-year case.

A

And so, this 10-year gas plan we filed has a lot of meat on the bone, and I feel very good about it. You can look at our last case and see that over 90% approval of the capital that we requested is a good indicator that that work that we have committed to doing is the work that the commission would want us to do as well. So, we feel good about that.

Now, on the ROE, of course we feel justified in 10.5% ROE ask. And so, we always make sure that we have adequate justification for that. It yields about a \$25 million impact if you take the 10.5% to 9.9%. And so, we recognize that the commission has a job to do. They've made it clear that they recognize that a healthy ROE is important to the utility. Low cost of capital is important for the benefit of customers and the utility. And so, we look

forward to seeing what the final outcome of that rate case will be. But what's more important, I think, as we really take an eye on it is the volume of capital and the alignment with the staff and the commission on the work that we're doing.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. And you anticipated my question on the ROE. So, I won't ask that delta number. But broadly on the Enterprise and EnerBank, and especially Enterprise, what's your three-year strategy? Any updates to that here in the last quarter or two?

Rejji P. Hayes

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

A

Yeah. So, the plan at Enterprises has been pretty straightforward for some time. And so, obviously, DIG drives the vast majority of the financial performance of Enterprises. And we really have tried to de-risk that business and its future earnings potential quite a bit through the energy contracts that we amended and extended about a year or so ago. And then, we've also locked in a good deal of our capacity, open margin, over the next few years as well. And so, we feel like there should be pretty steady predictable performance at Enterprises.

I'll also note we've done a few of these contracted renewable opportunities over the last sort of year-and-a-half. And so, we will look to be opportunistic if we find nice opportunities with third-parties where we can get attractive returns, credit worthy counterparties and basically have to ascribe very little terminal value to projects like that. And so, we'll look to do those from time to time. But again, we expect the three-year forward look to be pretty straightforward.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. And any of those contracted renewables in the CapEx plan right now?

Rejji P. Hayes

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

A

Not in the \$12.2 billion we highlighted.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. Thank you very much.

Patricia K. Poppe

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

A

Thanks, Travis.

Rejji P. Hayes

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

A

Thank you.

Operator: The next question is from Andrew Weisel with Scotiabank.

Andrew Weisel

Analyst, Scotia Howard Weil

Good morning, everyone.

Q

Patricia K. Poppe

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

Morning, Andrew.

A

Andrew Weisel

Analyst, Scotia Howard Weil

In fact, I've got one near-term and one long-term. First in the near-term, if you could elaborate, Rejji, you gave a lot of good color on the demand trends by class. Are you able to estimate, like, how much of the impact, particularly industrial, is related to tariffs and trade wars? And then what are your assumptions for load growth embedded in the 2020 guidance?

Q

Rejji P. Hayes

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

Yeah. So, we have, I'll say, for 2020 guidance, we are fairly conservative in our position, both in 2020 and also over the course of the five-year plan. And so, for electric, and again, if you got to keep taking into account that we have the energy efficiency programs embedded in that, we're assuming about, call it, flat to slightly declining for electric. And so that is our working assumption for really 2020 and beyond. And I'd say, gas flat to maybe slightly up based on the trends we're seeing there. And so that's our current position.

A

In terms of industrial activity, clearly, we've talked in the past about the diversified nature of our industrial customers and our electric service territory. And I'll just remind that folks at about 2% of our gross margin equivalent comes from the auto sector. And so, yes, of course, we do have exposure to companies that may have some level of exposure to export-import markets, the trade war, whatever you want to call it. But at the end of the day, a lot of the margin we generate comes from our residential and commercial customers and we continue to see very nice trends there.

And so, the industrial activity, we're obviously very supportive of it through our economic development efforts. We do think it's important to Michigan. And our efforts on the residential and commercial side, but really the vast majority of our sales are driven by residential and commercial, at least the margin there. And we've seen good trends.

The only other data point I'll leave you with is that 1% change in our industrial estimated growth probably drives about \$0.005 of EPS. And so, there really isn't a significant impact when you see variation in the industrial class because it's much lower margin.

Andrew Weisel

Analyst, Scotia Howard Weil

Right. Makes sense. Okay, good. Next, longer term question. You continue to point to the midpoint of the 6% to 8% range and obviously you've been delivering 7%. So that's probably not a surprise. My question is, you show rate base growth of 7% excluding the upside opportunities on CapEx. You have some incremental EPS growth from things like the energy efficiency and demand response incentives, as well as EnerBank growth. My question is, what would prevent you from hitting the high end of the range going forward? Is that equity dilution or any other factors?

Q

Patricia K. Poppe

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

A

Well, I'd say, number one, we're always balancing the ability for our customers to afford the product so that we have a sustainable plan. And I'll also offer, and you can see from our track record on years when there has been some favorability on a year when we could have delivered more than the midpoint, we reinvested in the business. And so, one of the key components of our success here is our consistent performance that you actually can set your watch to, that you can rest at night. That's our goal.

And so, the idea that we would start to fluctuate in pursuit of a higher target really is not consistent with our commitment to delivering, as you would expect, year after year after year. And actually, so even at this stage of the year, we're thinking two years out not just next year. And so, we're always looking for ways to pull ahead expenses, reinvest favorability for the benefit of the consistency in the long run.

Andrew Weisel

Analyst, Scotia Howard Weil

Q

Sounds good. I'll sneak in a last one. Patti, no story of the month? Any quick one you can throw at us?

Patricia K. Poppe

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

A

Let's see. Yeah. There's many of them. Here's one. One just off the top of my head. We had a team at one of our service centers really looking at their meter management process. And when we went out to talk to them, Garrick Rochow, our Head of Operations, observed that this team had had this problem of meter inventory and how they were managing that inventory, and because they have these teams called Fix It Now teams, which are empowered work teams right on the ground level, focused on driving the business, they had identified this issue with their inventories of meters and identified a \$2 million savings, specifically that benefits – that can be actually parlayed to other service centers to change their work process.

This CE Way is becoming embedded in our organization. And the ability to teach our coworkers to see and eliminate waste and improve their process, it reduces what we call their own human struggle. When our coworkers see human struggle that they can reduce, it often parlays into dollars, makes their job easier to do, makes them more committed to the ownership of the company. And it's another good example of our real savings that get driven by real people who do the real work. And I could not be more proud of the team. Thanks for asking. We have a big debate whether I should include that in the script, and I am very happy that you asked, Andrew. I stand vindicated.

Andrew Weisel

Analyst, Scotia Howard Weil

Q

I knew you'd have one at your fingertips. Thank you very much.

Operator: And our next question comes from Gregg Orrill with UBS. Please go ahead.

Gregg Orrill

Analyst, UBS Securities LLC

Q

Thanks.

Patricia K. Poppe

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

Good morning, Gregg.

A

Gregg Orrill

Analyst, UBS Securities LLC

Good morning. With the renewables CapEx that you've outlined on slide 22, can you maybe comment on how that contributes to rate base growth or is a portion of overall rate based in the plan?

Q

Rejji P. Hayes

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

Yeah. So, Gregg, what that's comprised of, it's the combination of renewable spend and certainly in the near-term portion of this five-year plan to get to the RPS, renewable portfolio standard of 15% by 2021 as per the Energy Law. So that's the components you'll see in sort of the 2020-2021 timeframe. And we have good projects in the pipeline that we think will allow us to get there.

A

And then the latter portion, as we've talked about in the past is part of the IRP related renewable spend. And so, again, as we start to execute on this 1.1-gigawatt tranche, half of which will be owned, half of which will be PPAed or contracted that's what's making up the balance of that.

In terms of the rate base component, we have of the \$1.8 billion of capital, we plan to spend on aggregate over the five-year period, it probably drives about or it probably represents about 6% of rate base or thereabouts. So, not all that significant at this moment but over time, we'll expect that to grow some. But the vast majority of the spend as we've talked on the past is, wires and pipes. We think that's where – if you really want to get the biggest bang for the buck, it's really in the investment in the safety and reliability of our system both in gas infrastructure and electric infrastructure. And so, that's where you see the vast majority of the rate base spend and the rate base growth accordingly.

Gregg Orrill

Analyst, UBS Securities LLC

Okay. Thank you. Congratulations.

Q

Rejji P. Hayes

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

Thank you.

A

Patricia K. Poppe

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

Thanks, Gregg.

A

Operator: And our next question is from David Fishman with Goldman Sachs.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Hi, good morning, and congrats on another consistent year.

Q

Rejji P. Hayes

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

Thank you, David. Good morning.

A

Patricia K. Poppe

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

Good morning.

A

David Fishman

Analyst, Goldman Sachs & Co. LLC

Good morning. So, I apologize this has already been asked, but with the natural gas distribution plan filed, given such a long-term look effectively by program, when would you expect really, if at all, to file for another IRM or another multiyear mechanism? I mean, just given the detail by category in this filing along with the IRP and the EDIIP, it certainly seems like you are potentially positioning consumers to work with the commission toward a mechanism of some kind in the 2020.

Q

Patricia K. Poppe

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

I would offer this, David. I have mixed feelings about long-term plans because the reality is the system is dynamic. The demands are dynamic. One of the great strengths of our plan, as I highlighted in my prepared remarks, is that we've got a lot of flexibility. This large percent of our spend under \$200 million. The ability to file every year, simple concrete filings that are part of a long-term plan allow us to adjust when conditions change. And there's no big bet strategy that we have employed for over a decade now, has served us well in our ability to be flexible.

A

And so, when you lock in a three-year filing on a system like the gas system where you can have dynamism, maybe you've got new regulations, maybe there's an incident somewhere else in the country that reprioritizes our system and our investment strategy, I personally like the flexibility of an annual filing that allows us to go ahead and adjust as necessary.

Now, the simplicity of a filing if you've got multi-year plans certainly can be appealing. And if our commission was leaning that way and they really preferred that, then of course, we would work with them on that. But I think the idea that we're dynamic and so is our plan has more relevance to our ability to deliver consistently.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Okay. That makes sense. And then the other item just on the filing, I thought you guys did a good job of breaking out your expectation for the kind of cost reductions starting in 2021 kind of through the 2020s. We've heard a lot about on the electric side the potential fuel cost savings in O&M, but I was wondering if you could kind of elaborate a little bit following kind of the extensive review. What kind of big buckets or drivers and trajectory you're seeing at the natural gas side in the 2020s?

Q

Patricia K. Poppe

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

Yeah. I'd say, the natural gas side, it's all about the efficiency of getting the work done. And with every dollar of capital, there's still associated O&M that comes with that. So, when we can make our capital more efficient, we

A

can make our O&M more efficient. So, we continue to work on our unit cost, on driving our unit cost, on reducing waste from the ability to execute work.

Our leak backlog and leak response is a large O&M expense. And so, when we make the capital investments that reduce vintage services and service lines and vintage mains, for example, we're able to reduce operating cost. And we just completed also a large capital project on our automated meter reading for our gas meters. And that helps reduce O&M expense as well that obviously reduces the daily walk-through of someone's backyard and walking down into their basement to read their meter. We can now do drive-by meter reads that's significantly more efficient and safer for our workforce. So, there's lots of operating expense benefits to waste elimination in the gas business as well.

David Fishman

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. Those are my questions.

Patricia K. Poppe

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

A

Thanks.

Operator: The next question will come from Andrew Levi with ExodusPoint. Please go ahead.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Hey, good morning. I guess, [indiscernible] (01:01:43).

Reiji P. Hayes

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

A

Good morning.

Patricia K. Poppe

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

A

Good morning.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Just on EnerBank. Obviously, Reiji, we've discussed kind of the company before. Just, what are your thoughts as far as the pros of keeping it versus the pros of potentially not keeping it?

Patricia K. Poppe

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

A

Andrew, EnerBank is really a valued part of the CMS family. They had a great year. And that's really what we think about EnerBank. They were a great contribution here last year and in many years in the past.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Okay. Thank you.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would like to return the conference back to Patti Poppe, for any closing remarks.

Patricia K. Poppe

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

Well, thanks, Chad, and thanks again, everyone for joining us this morning. We certainly look forward to seeing you throughout the year. 2020 is going to be a great one. Thanks so much.

Operator: And thank you. This concludes today's conference. Thank you everyone for joining in our call today. Take care.

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