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CMS Energy Corp. (CMS)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to CMS Energy Second Quarter 2021 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 August 5. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I would like to turn the call over to Mr. Sri Maddipati, Vice President of Treasury and Investor Relations. Please go ahead, sir.

Srikanth Maddipati*Vice President, Treasurer & Investor Relations, CMS Energy Corp.*

Thank you, Rocco. 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 us today. It's great to be with you. And we thank you for your continued interest and support.

I'm going to start today with the end in mind, strong quarter and a great first half of the year, giving us confidence as we target the high-end of the guidance range. Rejji will walk through the details of the quarter, and I'll share what the strong results mean for 2021 earnings. Needless to say, I'm very pleased.

An important June, sale of EnerBank at 3 times book value, moving from non-core to the core business with a strong focus on regulated utility growth. The sale of the bank provides for greater financial flexibility, eliminating planned equity issuance from 2022 to 2024. And Rejji will share how we have reduced our equity issuance need for 2021 in today's remarks.

Furthermore, with the filing of our Integrated Resource Plan, you can see the path for more than \$1 billion into the utility, again, without equity issuance. Not only is there visibility to that investment, but certainty in the timeline for review. I'm excited about this IRP. It's a remarkable plan.

Many have set net zero goals. We have industry-leading net zero goals. And this IRP provides the path and is an important proof point in our commitment. We are leading the clean energy transformation. It starts with our investment thesis. This simple but intentional approach has stood the test of time and continues to be our approach going forward. It is grounded in a balance commitment to all our stakeholders and enables us to continue to deliver on our financial objectives.

With the sale of EnerBank and the plan to exit coal by 2025, our investment thesis gets even simpler. But, now, it's also cleaner and leaner. We continue to mature and strengthen our lean operating system, the CE Way, which delivers value by reducing costs and improving quality, ensuring affordability for our customers. And our thesis is further strengthened by Michigan's supportive regulatory construct.

All of this supports our long-term adjusted EPS growth of 6% to 8%, and combined with our dividend, provides a premium total shareholder return of 9% to 11%. All of this remains solidly grounded in our commitment to the triple bottom line of people, planet and profit.

As I mentioned, our Integrated Resource Plan provides the proof points to our investment thesis, our net zero commitments, and highlights our commitment to the triple bottom line by accelerating our decarbonization efforts, making us one of the first utilities in the nation to exit coal.

We're increasing our renewable build-out, adding about 8 gigawatts of solar by 2040, up 2 gigawatt from the previous plan. Furthermore, this plan ensures reliability, a critical attribute as we place more intermittent resources on the grid. The purchase of over 2 gigawatt of existing natural gas generation allows us to exit coal and dramatically reduces our carbon footprint.

Existing natural gas generation is key, and like we've done historically with the purchases of our Zeeland and Jackson generating stations, this is a sweet spot for us where we reduce permitting, construction and startup risks. It is also thoughtful in that is not a 40- to 50-year commitment that you would get with a new asset, which we believe is important as we transition to net zero carbon. And, yes, another and, our plan is affordable for our customers. It will generate \$650 million of savings, essentially paying for our transition to clean energy.

This is truly a remarkable plan. It is carefully considered and data driven. We've analyzed hundreds of scenarios with different sensitivities and our plan was thoughtfully developed with extensive stakeholder engagement. I couldn't be more proud of this plan and especially the team that put it together. We've done our homework and I'm confident it is the best plan for our customers, our co-workers, the great state of Michigan, and of course you, our investors. It hits the triple bottom line.

The Integrated Resource Plan is a key element of Michigan's strong regulatory construct, which is known across the industry as one of the best. It is a result of legislation designed to ensure timely recovery of the necessary investment to advance safe and reliable energy in our state.

Michigan's forward-looking test years and the three-year pre-approval structure of the IRP process gives visibility on our future growth. It enables us and the commission to align on long-term generation planning and provide greater certainty as we invest in our clean energy transformation. We anticipate an initial order for the IRP from the commission in April and a final order in June of next year.

The visibility provided by Michigan's regulatory construct enables us to grow our capital plan to make the needed investments on our system. On slide 6, you can see that our five-year capital plan has grown every year. Our current five-year plan, which we'll update on our year-end call, includes \$13.2 billion of needed customer investment. It does not contain the upside in our IRP. The IRP provides a clear line of sight to the timing and composition of an incremental \$1.3 billion of opportunity. And as I shared on the previous slide, the regulatory construct provides timely approval of future capital expenditures. I really like this path forward.

And beyond our IRP, there is plenty of opportunity for our five-year capital plan to grow given the customer investment opportunities we have in our 10-year plan. Our backlog of needed investment is as vast as our system, which serves nearly 7 million people in all 68 counties of Michigan's Lower Peninsula. We see industry-leading growth continuing well into the future.

So where does that put us today? As I stated in my opening remarks, we had a strong quarter and a great first half of the year. The bank sale and now the IRP filing provide important context for our future growth and positioning of the business.

Let me share my confidence. For 2021, we are focused on delivering adjusted earnings from continuing operations of \$2.61 to \$2.65 per share, and we expect to deliver toward the high-end of that range. For 2022, we are reaffirming our adjusted full year guidance of \$2.85 to \$2.87 per share. Given the strong performance we're seeing this year, the reduced financing needs next year, and continued investments in the utility, there is upward momentum as we move forward.

Now many of you have asked about the dividend. We are reaffirming again no change to the \$1.74 dividend for 2021. As we move forward, we are committed to growing the dividend in line with earnings with a target payout ratio of about 60%.

While we are not going to provide 2022 dividend guidance on this call, I want to be very clear, we are committed to growing the dividend in 2022. It's what you expect, it's why you own us, and it's a big part of our value. I'll offer this; our target payout ratio does not need to be achieved immediately. It will happen naturally as we grow our earnings.

Finally, I want to touch on our long-term growth rate, which is 6% to 8%. This is not changed. It's driven by the capital investment needs of our system, our customers' affordability and the need for a healthy balance sheet to fund those investments. Historically, we've grown at 7%. But as we redeploy the proceeds from the bank, we will deliver toward the high-end through 2025. I'll also remind you that we tend to rebase higher off of actuals and have historically either met or exceeded our guidance.

All-in a strong quarter, positioned well for 2021 with upward momentum. And with EnerBank and the IRP, it all comes together nicely positioned for the long term.

With that, I'll turn the call over to Rejji to discuss the details of our quarterly and year-to-date earnings. Rejji?

Rejji P. Hayes

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

Thank you, Garrick, and good morning, everyone. Before I walk through the details of our financial results for the quarter, you'll note that, throughout our materials, we have reported the financial performance of EnerBank as discontinued operations, thereby, removing it as a reportable segment and adjusting our quarterly and year-to-date results in accordance with Generally Accepted Accounting Principles.

And while we're on EnerBank, I'll share that the sale process continues to progress nicely as the merger application was filed in June with the various federal and state regulators who will be evaluating the transaction for approval. And we continue to expect the transaction to close in the fourth quarter of this year.

Moving on to continuing operations, for the second quarter, we delivered adjusted net income of \$158 million or \$0.55 per share, which excludes \$0.07 from EnerBank. For comparative purposes, our second quarter adjusted EPS from continuing operations was \$0.09 above our second quarter 2020 results exclusive of EnerBank's EPS contribution last year.

The key drivers of our financial performance for the quarter were rate relief, net of investment-related expenses, recovering commercial and industrial sales, and the usual strong tax planning. Year-to-date, we've delivered adjusted net income from continuing operations of \$472 million or \$1.64 per share, which excludes \$0.19 per share from EnerBank and is up \$0.37 per share versus the first half of 2020, assuming a comparable adjustment for discontinued operations.

All-in, we're tracking well ahead of plan on all of our key financial metrics to-date, which offers great financial flexibility for the second half of the year. The waterfall chart on slide 9 provides more detail on key year-to-date drivers of our financial performance versus 2020. As a reminder, this walk excludes the financial performance of EnerBank.

For the first half of 2021, rate relief has been the primary driver of our positive year-over-year variance to the tune of \$0.36 per share given the constructive regulatory outcomes achieved in the second half of 2020 for electric and gas businesses. As a reminder, our rate relief figures are stated net of investment related costs such as depreciation and amortization, property taxes and funding costs at the utility.

The rate relief related upside in 2021 has been partially offset by the planned increases in our operating and maintenance expenses to fund key initiatives around safety, reliability, customer experience and decarbonization. As a reminder, these expenses align with our recent rate orders and equate to \$0.06 per share of negative variance versus 2020. It is also worth noting that this calculation also includes cost savings realized to-date largely due to our waste elimination efforts through the CE Way, which are ahead of plan.

We also benefited in the first half of 2021 from favorable weather relative to 2020 in the amount of \$0.06 per share and recovering commercial and industrial sales which, coupled with solid tax planning, provided \$0.01 per share of positive variance in aggregate.

As we look ahead to the second half of the year, we feel quite good about the glide path to delivering toward the high-end of our EPS guidance range as Garrick noted. As always, we plan for normal weather, which in this case translates to \$0.02 per share of negative variance given the absence of the favorable weather experienced in the second half of 2020.

We'll continue to benefit from the residual impact of rate relief which equates to \$0.12 per share of pick-up. And I'll remind you, it's not subject to any further MPSC actions. We also continue to execute on our operational and customer-related projects which, we estimate, will have a financial impact at \$0.21 per share of negative variance versus the comparable period in 2020 given anticipated reinvestments in the second half of the year. We've also seen the usual conservatism in our utility non-weather sales assumptions and our non-utility segment performance, which as a reminder, now excludes EnerBank. All-in, we are pleased with our strong start to the year and are well-positioned for the latter part of 2021.

Turning to our financing plan for the year, I'm pleased to highlight our recent successful issuance of \$230 million of preferred stock at an annual rate of 4.2%, one of the lowest rates ever achieved for a preferred offering of its kind. This transaction satisfies the vast majority of funding needs at CMS Energy, our parent company, for the year. And given the high level of equity content ascribed to the security by the rating agencies, we have reduced our planned equity issuance needs for the year to up to \$100 million from up to \$250 million.

As a reminder, over half of the \$100 million of revised equity issuance needs for the year are already contracted via equity forwards. It is also worth noting that given the terms and conditions of the EnerBank merger agreement, in the event EnerBank continues to outperform their financial plan prior to the closing of the transaction, we would have a favorable purchase price adjustment related to the increase in book equity value at closing, which could further reduce our financing needs for 2021 and provide additional financial flexibility in 2022.

Closing out the financing plan, I'll also highlight that we recently extended our long-term credit facilities by one year to 2024 both at the parent and the utility. Lastly, I'd be remiss if I didn't mention that, later today, we'll file our 10-Q, which will be the last 10-Q signed by Glenn Barba, our Chief Accounting Officer, who most of you know from his days leading our IR team.

Glenn announced his retirement earlier this year after serving admirably for nearly 25 years at CMS, which included him signing over 75 quarterly SEC filings during his tenure. Glenn, thank you for your wonderful service to CMS. You certainly left it better than you found it, and we wish you the very best in this next chapter in your life.

And with that, I'll turn the call back to Garrick for some concluding remarks before we open it up for Q&A.

Garrick J. Rochow

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

Thanks, Reiji, and thank you, Glenn, for your service. As we've highlighted today, we've had a great first half of the year, and we're pleased to have delivered such strong results. We're positioned well to continue that momentum into the second half of the year as we focus on finalizing the sale of the bank and moving through the IRP process.

I'm proud to lead this great team. We can't wait to share our success as we move forward together. This is an exciting time at CMS Energy.

With that, Rocco, please open the lines for Q&A.

QUESTION AND ANSWER SECTION

Operator: Yes, sir. [Operator Instructions] Today's first question comes from Jeremy Tonet with JPMorgan. Please go ahead.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Hi. Good morning.

Q

Garrick J. Rochow

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

Good morning, Jeremy. How are you?

A

Rejji P. Hayes

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

Good morning.

A

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Good. Thanks. Just want to start – you mentioned growing earnings at the high-end of the 6% to 8% range kind of as proceeds get redeployed here over time. Just wondering if you could – we could dig in a little bit more, if there's any more color you can provide on how to think about the timing here. It seems like a lot of opportunity with the IRP. But how should we think about the high-end? Basically, I'm trying to think what type of glide path could we see where the earnings trajectory could overlap, I guess, pre- EnerBank guide at that point?

Q

Garrick J. Rochow

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

Jeremy, I think you said some key words, opportunity, and one word I'd add to that – or two words, I guess, that I would add to that is upward momentum. And so, off of 2022, 6% to 8%, we're going to deliver toward the high-end of that through 2025.

A

And then when I think about the IRP, there's obviously two big tranches, let's say, Covert in 2023 and the acquisition of that facility, and also the Enterprise facilities around 2025. Those are incremental to the plan – to the capital plan, and those strengthen and lengthen that growth through that time period. And so, again, I feel confident in our ability to deliver on that and, I think this is a great plan with upward momentum as we look at that time period from 2022 to 2025.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Got it. That's very helpful. Thanks for that. And then, I know we're early in the IRP process here, but just wondering if you could expand a bit more, I guess, on early stakeholder feedback and just your thoughts at this point.

Garrick J. Rochow

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

A

Jeremy, I wish you could see my face. I've got a big grin on my face. I'm smiling. I'd love to have a case where there's no pushback and there's no intervenors, that happens with every case as you well know. But here's where I see the IRP. There's a win in here – and this is why it's remarkable plan. There is a win for everyone, the intervenors or stakeholders.

When I think about the environmental community, 60% reduction in CO2, well above and beyond the requirements of the Paris Accord, the 2-degree and the 1.5-degree scenario; well above and beyond what Biden proposed for 2030. So, a big win for the environmental community in there. A big win for our customers; affordability, \$650 million of savings. That's a great opportunity. Reliability or, maybe better stated, resiliency of the electric grid; this is a more reliable plan than our previous IRP.

We've done more homework to ensure that we don't have a Texas-like situation as we look forward to the future with intermittent resource. I feel really great about that. And then, for investors, over \$1 billion of incremental investment and the ability to treat these assets – remember securitization is voluntary, the ability to treat these assets – the existing assets and the book value as- to the regulatory asset process. I feel really good there's a win here for everyone.

And when there's a win for everyone, the opportunity to reach settlement, and even if it's not settlement, to go the whole distance, I feel really good about that. And just one last reminder on this. 2018 IRP, number of intervenors engaged with that. We settled that case. 2021 IRP, number of intervenors in that case, and with that pattern of wins that I just walked through, there's a great way that we can reach a great outcome of our IRP. Feel good about it, Jeremy.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Got you. That's really helpful. Sounds promising. Just a small one, if I could, just want to reconcile. I think the equity, \$100 million for the balance of the year, I think, was in the slide and a good chunk of that already locked in. But were there any comments that it's possible to even lessen that, just want to make sure I have that straight as far as what the equity thoughts were for balance of the year?

Garrick J. Rochow

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

A

Yeah, I'm going to let Rejji grab that one.

Rejji P. Hayes

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

A

Yeah. Good morning, Jeremy. Good question. So, where we sit today, we're comfortable setting up to \$100 million because of the preferred stock issuance. And remember, we've got a little north of \$50 million of that already locked in through forwards. We'll continue to evaluate opportunities over the course of this year, and if we can reduce that we may do that. But, for now, we're comfortable saying up to \$100 million.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Got it. That's very helpful. I'll stop there. Thanks.

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

A

Thank you.

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

A

Thanks.

Operator: And our next question today comes from Insoo Kim with Goldman Sachs. Please go ahead.

Insoo Kim*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. First question is following up on Jeremy's question on the earnings growth trajectory. I just want to clarify from my end that you're saying, off of the 2022 guidance range, your growth is going to be towards the upper, I guess, end of the 6% to 8% range through 2025. And that's regardless of whether the IRP-related CapEx opportunities work out or not. Is that how I heard it?

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

A

Insoo, so thanks for your question. It's great to hear from you. And that's exactly what we stated. 6% to 8%, we expect to deliver toward the high-end and the IRP, Covert and those Enterprises assets strengthen and lengthen that path, so absolutely.

Insoo Kim*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Got it. And then just, so taking the IRP aside, you've been so consistent in achieving that 10% (sic) [7%] range like clockwork for a long time. I guess going to that upper-end, again, excluding the IRP, what kind of gives you confidence that maybe that could – what the longer-term runway could be of that type of growth rate?

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

A

Well, I'd actually start with this year, in 2021. This momentum that we have right now carries into 2022. Hopefully, you heard that in our comments from \$2.85 to \$2.87, and we'll continue to revisit that on quarterly calls. Again, that carries in this plan. And remember what we do. We rebase off of actuals, so we deliver, we either meet or exceed guidance, and then that's the point where we rebase off of. And so, it's that compounding effect that you've seen time and time again.

And so that's an important piece of it. But, also, we think about the entire triple bottom line. And so, I think a great example of this IRP, we're putting \$1.3 billion in and it saves our customers \$650 million. That's that CE Way mindset coming to play, making these investments, attacking the cost stack. Share of wallet's 3%, it was 4%; went

to 3% share of wallet. So, we balance all those things, the affordability, the balance sheet, and make this come together. So, again, I feel really confident about our glide path forward.

And Rejji, you might have some comments on that as well.

Rejji P. Hayes

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

A

Insoo, the only thing I would add to Garrick's comments is, as you think longer term, we noted in the IRP that we intend to do about 8 gigawatts of solar new build and that's about 2 gigawatts higher than the prior plan. And so that creates additional capital investment opportunities. We're assuming it's a similar construct where it's about 50% owned and 50% contracted. However, if we continue to be more and more cost competitive, that could create additional upside to own more of that opportunity over time.

You couple that with the fact that we've talked about the \$3 billion to \$4 billion of upside opportunities in our 10-year capital plan, a portion of which we think will be in our next five-year plan. But there still be balance after that. And so, as we continue to take cost, whether it's through the CE Way or some of these episodic opportunities like PPAs, repricing, and so on, well that creates more headroom to bring in that additional capital. So, we feel very good about the long-term glide path for capital growth which drives rate base growth and then earnings.

Insoo Kim

Analyst, Goldman Sachs & Co. LLC

Q

Understood. That's definitely helpful. Just one more, if I could. Going back to that IRP plan, I think a lot of the questions that people have is whether this plan, which basically swaps out coal for, at least in the interim, gas in the portfolio and how that will be received by the various stakeholders.

Appreciate your comments on working with the various stakeholders as well as the commission on this type of plan, but how confident are you in this plan being the best one. And if there is some, I guess, room for negotiation if this doesn't end up being the best plan for the commission, what are some of the alternatives that could potentially also work?

Garrick J. Rochow

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

A

Well, this is the best plan for Michigan. One of the things that our first IRP taught us is that we've learned a lot from that and this is a, I would just say, a great plan, a remarkable plan for all the reasons I mentioned a few minutes ago. And so, there's a win in here for everyone. And when there's a win, there's an opportunity to reach settlement or go the whole distance.

And so, again, I would just reference 2018. We were very successful with a number of intervenors and being able to get to a settlement. But this is what's great about this regulatory construct. We're working with these intervenors in the process and if there's an opportunity to settle where it is an outcome that's good for all, we would do that. And so, we're early on Insoo and, again, I'm very optimistic we have a great plan.

And, I don't know, Rejji, you want to that?

Rejji P. Hayes

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

Q

Insoo, the only thing I would add to that is that trust that we evaluated a number of different permutations as instructed per the IRP construct. And so, we certainly looked at whether we could transition to renewable power more rapidly or fully in as a substitute for the coal facility retirement, and the economics just don't get you there. Plus, you also introduce significant reliability and resilience trends given the lack of really long-term storage solutions. And so, we certainly evaluated it.

But, as Garrick noted, we deem this plan where it sits today as the best plan for Michigan. And also, with the gas facilities and, obviously, forgoing the O&M and capital we know we would have on our coal facilities, you take that into account with the fuel arbitrage you get from gas versus coal and just less purchase [indiscernible] (30:00) controllable dispatch. It just brings substantial cost savings to customers which would not be offered if we went to a full renewable solution in lieu of gas as a bridge fuel. So, we feel like this is the most economic opportunity for all stakeholders.

Garrick J. Rochow

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

A

Yeah, I'm going to add to that. I just want to just crystal clear on this, not only the affordability piece, but those natural gas plants are required for resiliency in the state. You can't get here from there, that's just bottom line. And so, it's that crystal clear, and that's why I have just a high degree of confidence.

Insoo Kim

Analyst, Goldman Sachs & Co. LLC

Q

That's great color. Thank you so much.

Operator: And our next question today comes from Anthony Crowdell with Mizuho.

Garrick J. Rochow

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

A

Hey, Anthony.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, Garrick. Thanks so much. Just, I guess, one quick question on the dividend. You've laid out a nice plan for earnings growth rates and you're pretty confident in that 2025 the high-end. But what's your concern over providing that type of detail on the dividend growth rate?

Garrick J. Rochow

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

A

Well, you said pretty confident. I would change that word to really confident. And so just a little correction there in your question.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

Yeah.

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

A

But I'm equally confident in our dividend piece. And what you heard from me is that confidence in a dividend growth for 2022. We recognize the importance of it, and we have it built into our financial plan.

But I really want to hand it over to Rejji here because it is an important piece that's associated with the sale of the bank and closure in Q4 that also shapes that dividend. And so that's why we're – those pieces had to come together so that we can share that potential here at the end of the year. But go ahead, Rejji.

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

A

Yeah. That's right. So, if you think about some of the dynamism we might see in the second half of the year, the closing and the timing of the closing of the EnerBank transaction could certainly impact what we might plan to do for 2022 dividend. But to go back to Garrick's comments, our commitment is to grow the dividend beyond the \$1.74 per share where it is today, and then longer term, again, we'll certainly have that dividend growth commensurate with earnings.

But, certainly, the bank sale and the timing of that will have an impact in the near-term and then longer-term, again, right in line with earnings growth. And so, we feel highly confident that we will have a competitive dividend and we know that it's a core part of our value proposition as Garrick noted in his prepared remarks.

Anthony Crowdell*Analyst, Mizuho Securities USA LLC*

Q

Thanks.

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

A

And I'd just to add to that. There's – with the sale and that closure there, there's upside potential there from a dividend perspective, again. So, we want to be able to – our investors to be able to share in some of that positive news.

Anthony Crowdell*Analyst, Mizuho Securities USA LLC*

Q

If I could just jump over one last question related to IRP, is any part of the IRP, you think, some good maybe be the most challenging that may generate the most concern with the intervenors?

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

A

I don't know about most challenging, I think that – I'll just tell you this, Anthony. Back in 2014 and 2015, I was a policy witness. I've been on the stand with intervenors, have been crossed by attorneys, they go after a lot of different things in the case. And here's – again, we've got strong testimony. We've got great precedent. We're used to this stuff.

We do this all the time with our rate cases. We've done it with the previous IRP. I don't think there's anything this team can't handle, frankly. And we're prepared to do that. As Rejji alluded to a minute ago, there's a lot of detail, a lot of modeling and data that went into this, and so it's a very strong case.

Anthony Crowdell*Analyst, Mizuho Securities USA LLC*

Q

Great. Thanks for taking my question.

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

A

Yep.

Operator: And our next question today comes from Durgesh Chopra with Evercore ISI.

Durgesh Chopra*Analyst, Evercore Group LLC*

Q

Hey. Good morning, team. Thanks for taking my question.

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

A

Yeah, Durgesh. Welcome. Good morning.

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

A

Good morning.

Durgesh Chopra*Analyst, Evercore Group LLC*

Q

Maybe just on the IRP, I noticed that you proposed a couple of coal plant shutdowns, but then including them in the rate base post their shutdown. Just kind of curious as to sort of if the state has done that previously or there's some precedent there that you feel comfortable with that proposal?

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

A

Well, I do feel comfortable with it. There's a precedent set in Colorado, Florida, Wisconsin for a similar approach. And in Michigan, we do have a nice ability to securitize, but it is voluntary, and that's an important piece of this. And so, it's essentially in 2025, it's about \$1.2 billion of remaining book value, to go on through and securitize that just doesn't make sense if it's just going to be a drag in the credit metrics. It's going to have an impact on the cost of capital which ultimately shows up on the customers' bill. That doesn't make sense. And so, we've really got a good approach there. It's different than how we've approached it previously. But, again, there's a nice precedent that's been set. And I'm really – the testimony, I've reviewed the testimony, it's – we're in a good spot.

Durgesh Chopra*Analyst, Evercore Group LLC*

Q

Understood. Appreciate the color there. And obviously, you can always fall back to securitization if that ends up being the case. But I appreciate the color there. And then just maybe to Rejji, can you clarify sort of the – I'm trying to see the equity elimination through 2024. You don't talk about 2025, so should we assume sort of the normal cadence of equity, I believe that was \$250 million per year, to go back to that starting in 2025? I'm just

trying to reconcile that to the comment that the \$1 billion additional in the IRP, you don't need to finance that with equity. Just any color there, Rejji, would be helpful. Thank you.

Rejji P. Hayes

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

A

Yeah, happy to, Durgesh. First, let me just circle back to your closing comment just to be unambiguous around this. And so, the notion of falling back on a securitization, as we noted when we rolled out the IRP, as we noted in our prepared remarks, this is the proposed plan. This is not a buffet. We're not thinking about any type of fallback option.

And again, from a securitization perspective, to Garrick's comments, given the impact it could have on our balance sheet, we've already done with the inclusion of Kam 1 & 2 and the retirement and securitization there. We will already have \$1 billion of securitized debt on our balance sheet as of 2023. So, we really cannot accommodate alternatives like that. So, I want to be very clear. We do not view that as a fallback option and the proposed plan is what it is.

So, with respect to the question around equity, yes, you're right in that, as we disclosed when we announced the EnerBank sale, we're not planning to issue any equity from 2022 through 2024, even with the capital opportunities that we've announced today with the IRP and potentially some of that upside opportunity, so no additional equity.

For 2025, you can assume the up to \$250 million level that we articulated when we first rolled out our five-year plan. So that's still a good working assumption for now. But, obviously, there is a lot of time left. And if we can recalibrate and see the data move in a way that supports reducing that, at some point, we may revisit that. But, for now, assume \$250 million in that outer year of 2025. Is that helpful?

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Very helpful. And thanks for clarifying that securitization comment. Thank you, Rejji, and thanks, Garrick.

Rejji P. Hayes

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

A

Thank you.

Garrick J. Rochow

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

A

Thanks.

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

Constantine Lednev

Analyst, Guggenheim Securities LLC

Q

Hi. Good morning, team. This is actually Constantine here for Shar. Thanks for a very comprehensive update.

Garrick J. Rochow

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

A

Hi. Constantine.

Constantine Lednev*Analyst, Guggenheim Securities LLC*

Q

I think if I may – hi. Good morning. If I can just follow-up on one more kind of I guess IRP CapEx related question. What are some of the constructs that the incremental portions of CapEx fall under? Is it all fully covered by the IRP as proposed plus kind of the annual rate case process that you have? Any kind of non – does any of the non-IRP work going to need any incremental trackers and does any of this incremental work kind of start prompting more equity needs down the line or is it fully kind of baked in at this point?

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

A

Let me – I think Rejji and I'll tag team this one. And so, let me just kind of frame up what I think about our capital plan. And I think we'll talk about our current work across our utility, but also this IRP. And so, at the end of the year, in our January call, we're going to add another year to that five-year capital plan and that's going to be more capital opportunity. That five-year plan is going to grow, and it's going to be in our gas business, it's going to be in our electric distribution business. And so, there's some growth opportunity there.

And we'll continue to follow this IRP through the process, through that 10-month process. Again, we feel confident in the outcome of that. And then that's an incremental \$1.3 billion. And so, you can imagine in Q2 of 2022, we're going to – with this successful outcome, there'll be an adjustment in 2023 to accommodate the Covert facility, and then also an adjustment in 2025.

And so, you can see some of that play out over the five-year and into the 10-year, because when you look at that, this Integrated Resource Plan, it goes from 2025 to 2027, and so some of that solar build will fall in the 10-year piece as well. And so, there's some updating that will take place along those lines. So, that's kind of the capital layout. But, Rejji, certainly tag team this with me.

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

A

Sure. Happy to. So, Constantine, I appreciate the question. We're pretty methodical. So, I'll put the IRP aside. We're pretty methodical in how we think about the capital plan at the utility. And we really spend a lot of time providing long-term visibility on customer investment opportunities across each of the businesses.

And so, the current five-year plan has around \$2.5 billion of what I'll call clean energy generation spend and then the balance is electric and gas and infrastructure spend. And so, we noted when we filed our gas case a couple of years ago that we had about \$10 billion of gas infrastructure related investments for safety, reliability and decarbonization of about \$1 billion per year run rate.

So, you can expect an extension of that capital investment opportunity in subsequent iterations of five-year plan. And so, we'll do more gas infrastructure. Again, we're on about \$1 billion per year run rate in that regard. Electric infrastructure is comparable where we're doing a little over \$1 billion per year of electric infrastructure work to improve reliability. And the IRP is also where we're seeing capital investment opportunity.

So, the existing IRP, remember, we're still executing on a 1.1 gigawatt tranche, and we're going to own half of that. And so, all of that's going to be part of the next iteration. And so those are the sort of non-new IRP opportunities. Again, we'll see those come in and we also talked about starting to take on some of those upside opportunities which, in our 10-year plan of \$3 billion to \$4 billion, we wouldn't do all of that in the next vintage, but a portion of it. Again, it's more electric and gas infrastructure as well as clean energy generation related spend.

And so, those would be some of the projects that we would invest in beyond this new IRP. We're highly confident that we'll be able to create the headroom to introduce those into the capital plan.

You asked about trackers. The only thing I would mention in that regard is in our gas infrastructure capital plan, we do have the equivalent or a comparable structure like a tracker and that's in our Enhanced Infrastructure Replacement Program. And so, we have that on the gas side, but we don't have any other, I'll say, sort of historical type trackers like that. And so, we obviously put them into the cases, we file on a serial basis and then that dictates what ends up in the final plan. Does that make sense?

Constantine Lednev

Analyst, Guggenheim Securities LLC

Q

It does. I think that's very helpful. And if I may shift a little bit to more of a fundamental question; so the electric sales volumes seem to be normalizing with reopening more or less and especially with the strong kind of C&I growth and residential coming down a bit, can you talk about your thoughts on the residential load and how sticky it is versus expectations and maybe kind of the reversion of the residential load causing headwinds in terms of earnings for 2021 or expectations in 2022?

Garrick J. Rochow

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

A

I'm going to have Rejji start with some of the specifics and then I'll talk about some macro at the end. So, Rejji, why don't you grab it?

Rejji P. Hayes

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

A

Yeah. Constantine, we've been quite pleased with what we've seen really across all of the customer classes to date. And so, we have good detail on the 15-page digest we distribute. Also, in the appendix, you can see the year-to-date trends in the presentation today. And so, we've got residential year-to-date down a little over 1%. That compares favorably to plan. We had much more bearish expectations because we were assuming a more rapid return to facilities. And so, our full year plan was something closer to down roughly 5%, and we're ahead of plan.

So, that does imply that we're seeing a good level of stickiness to this mass teleworking trend, which I do think will be part of a post-pandemic normal. And obviously, that's higher margin load. And so, residential continues to outperform our expectations. And then we're also seeing commercial and industrial, as I mentioned in my prepared remarks, come back nicely. And so, year-to-date, commercial's up around 3.5%, and we had in our plan about that level, and then industrial's at 13% year-to-date 2021 versus 2020.

In our plan, we said, on a full year basis, about 6% up. And so, we're seeing surprise to the upside across all fronts. And so, intra-year, that obviously creates upside and potential contingency as we go into the second half of the year. But, longer term, as you roll that into your rate cases, that creates headroom because you're introducing more kilowatt hours into the denominator of your rate calculation. So, we feel very good about the road ahead to date.

It's still early days. The pandemic's not behind us yet. But, again, we're still seeing very encouraging trends on the load side. The other leading indicators we've talked about in the past are just interconnection activities, new service requests. They're up over 30% year-to-date versus where they were in 2020. And 2020 may not be the best comp given the pandemic. So, we also look at 2019, and again, up 30% versus where we were pre-

pandemic. So, interconnections are strong, staking requests are strong, customer counts are quite good, with commercial up 1%. And so, again, everything seems to be trending from a load perspective in the right direction.

Garrick J. Rochow

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

A

I'll just to add to that just for a little bit of clarification. So, those new service connections, those interconnects, those are installs. Those aren't someone dreaming of putting in a house or thinking about a business, those are actually in the ground. And so, again, it gives you just some idea of the momentum here.

We continue to have unemployment rates well below the national average here in Michigan. In the heart of our service territory, Grand Rapids it's even better. And just to give you a little flavor of the quarter. We've even seen growth, and again macro trends and people opening new business in Michigan. In fact, we're under an NDA right now with a company, but all it's \$300 million investment, 30 megawatts, a 150 jobs that are located here in our service territory in Michigan. And I can take two other examples of that. And so, coming out of the pandemic here and we're seeing nice economic development growth here in Michigan as well.

Constantine Lednev

Analyst, Guggenheim Securities LLC

Q

That's very helpful color. Thanks so much for taking the questions and congrats on a great quarter.

Garrick J. Rochow

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

A

Thank you.

Operator: And the next question comes from Paul Patterson with Glenrock Associates. Please go ahead.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

Good morning, guys. How you're doing?

Rejji P. Hayes

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

A

Good. We're doing great, Paul. Good to hear from you.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

So most of my questions have been answered, but just to back on that securitization question, could you remind me the size of the asset that's now going to amortized as supposed to securitized?

Garrick J. Rochow

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

A

Yeah, the remaining book value in 2025 of those coal plants would be \$1.2 billion that is in our consideration in this filing.

Paul Patterson*Analyst, Glenrock Associates LLC*

Q

Okay. And you guys mentioned that the securitization you thought would be credit negative in comparison to the plan that you're putting forward. And could you – just to sort of walk to sort of a very high level, the reason for that is because you'll be amortizing the cash flow faster, is that the way to sort of think about the – excuse me, you'll be amortizing your assets faster and the cash flow will be stronger, is that how you're looking at this or is there something else I should be thinking about?

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

A

So, Paul, this is Rejji. So, couple of things there. So, Moody's, as you may recall, treats securitized debt as debt in their metric calculations. And so, you have that leveraging effect of securitizations because they are effectively non-recourse debt, but Moody's is the one rating agency that does impute it as debt. And so, that \$1.2 billion that Garrick noted would be dollar for dollar counted as debt in our credit metric calculation. So, you've got credit dilution there.

And then you couple that with the fact that you're going to forgo earnings on \$1.2 billion of rate base over time. And so, you couple sort of the impact on the denominator where you just have dollar for dollar debt of \$1.2 billion and then you have the dilution in your numerator because you're foregoing earnings on that equity portion of that rate base over that period of time. That's what offers that leveraging effect.

Paul Patterson*Analyst, Glenrock Associates LLC*

Q

Okay. I apologize on that. Of course, you're getting the cash up front with the securitization. So, I'm just sort of – when you – look, we can that off-line, but okay, I understand that. And then, in terms of the plan, it sounds like it really is a win, win, win. I'm just wondering has there been any change in the trajectory of what you're expecting in terms of customers going forward as a result of the IRP or is it too early to sort of tell is there? Are you guys pretty much on track as you were thinking before and this is just going to be some incremental savings that will help you reach your goals. Do you follow what I'm saying?

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

A

I do follow what you're saying. So we look at – when we cross that five-year plan of investments, we look at the rate impact and into the bill impact which is also critically important for residential and commercial customers. And so, that is part of the five-year and as we, again, this incremental capital of \$1.3 billion, it provides \$650 million of savings over our current plan. And so this is – so, again, this comes together nicely to your point, Paul, from the affordability perspective for our customers.

Paul Patterson*Analyst, Glenrock Associates LLC*

Q

Okay. Awesome. Thanks so much and congratulations.

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

A

Yeah. Thank you, Paul.

Operator: And ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the conference back over to Garrick Rochow for closing remarks.

Garrick J. Rochow

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

Again, I want to thank everyone for joining us today; again, strong quarter, great first half of the year, and upward momentum. And just, again, I'm looking forward to seeing everyone in person here as we – again, safely as we move through the latter half of the year. Take care and be safe.

Operator: Thank you, sir. This concludes today's conference call. Thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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