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# CMS Energy Corp. (CMS)

## Q3 2022 Earnings Call

# CORPORATE PARTICIPANTS

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

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

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

# OTHER PARTICIPANTS

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

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*

**Jeremy Tonet**
*Analyst, JPMorgan Securities LLC*

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

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

**Travis Miller**
*Analyst, Morningstar, Inc.*

**Anthony Crowdell**
*Analyst, Mizuho Securities USA LLC*

**Michael P. Sullivan**
*Analyst, Wolfe Research LLC*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, everyone, and welcome to the CMS Energy 2022 Third 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 as a reminder, that there will be a rebroadcast of this conference call today beginning at 12 PM Eastern Time, running through November 3. This presentation is also being webcast and it's 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, Treasurer and Vice President of Finance and Investor Relations.

## Srikanth Maddipati
*Treasurer & Vice President-Finance and Investor Relations, CMS Energy Corp.*

Thank you, Maxine. 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. I'm pleased with the results for the quarter and the path to year end. But before I get into specifics, I want to start with our simple investment thesis, which continues to stand the test of time. You've seen this in our calls and meetings, and you've seen the results. It works. This is where we put our words into action. We remain firmly committed to leading the clean energy transformation.

As I mentioned on the Q2 call, the approval of our IRP was a proof point; evidence that we have a clear pathway supported by the regulatory construct to deliver on our leading clean energy commitment. Our investment thesis is fueled by our commitment to eliminate waste, driven by the CE Way. I'd put us up against anyone in our ability to take cost out. This year, we are on track to take $50 million of O&M waste out of the business. The CE Way is critical to delivering our operational and financial performance and keeping our service affordable for our customers. Another critical element is our top-tier regulatory backdrop in Michigan. In Q2, we not only delivered our IRP, but we settled our gas rate case. And in this quarter, we received constructive feedback on our pending electric rate case, further evidence of the health of the Michigan regulatory environment.

A key part of our investment thesis, which we don't talk about enough, is our diverse and attractive service territory. I'm excited about both the pace and impact of new growth in Michigan. Just this month, our governor announced that Gotion, a global electric vehicle battery manufacturer, selected Michigan for its US expansion over many other states, highlighting another example of onshoring manufacturing within the state. This project is expected to add over 2,000 jobs and provide $2.4 billion of investment.

In August, President Biden joined Governor Whitmer at Hemlock Semiconductor, headquartered here in the heart of our service territory. Together, they announced an executive directive to guide the implementation of the CHIPS Act, which will boost domestic chip production and bolster Michigan's leadership in the semiconductor industry.

Let me put that into perspective. Hemlock is one of the largest polysilicon manufacturers in the world. Nearly one-third of the world's chips are made from polysilicon produced at that facility right here in Michigan. In September, Hemlock announced plans to grow its operation. The project is expected to add 170 jobs and $375 million of investment in the state. Ground has already been broken on the expansion. Also, the expansion of SK Siltron, now in operation, a semiconductor wafer manufacturer bringing 150 jobs and over $300 million of investment to the state. These are highlights over the quarter.

From the map on the slide, you can see we've secured over 80 agreements year-to-date, which translates to roughly 200 megawatts of new or expanding load in our service territory. This growth is bolstered by collaborative and innovative economic development efforts, supported by competitive rates for energy-intensive customers and robust policy, which are working and continue to drive growth.

Our work with the governor's office, the legislature, the Michigan Economic Development Corporation, and the Commission has made it possible for Michigan to not only compete, but win investment and new jobs. These economic tailwinds are just a few of many we've seen and continue to see across Michigan that will help attract more business; grow industrial, commercial and residential load; and ultimately provide long-term bill relief for all our customers.

Our strong commitment to decarbonize both our gas and electric systems is a key differentiator for CMS Energy. The recently passed Inflation Reduction Act is another catalyst for our clean energy transformation, supporting deployment of renewable and lowering costs for our customers. We see a lot of benefit in this new legislation.

The extension of tax credits for both wind and solar provide economic certainty and lowers costs for our robust renewable backlog within our IRP, which includes 8 gigawatts of solar, as well as the remaining 200 megawatts of wind we are constructing to meet Michigan's renewable portfolio standard. Production tax credits for solar projects will drive cost-competitiveness for utility-owned projects versus PPA. As we build scale, this cost-competitiveness should enable us to own and rate base a greater portion of future IRP solar investments.

The investment tax credit for storage will lower cost and provide greater flexibility as we're able to site storage strategically across the grid. Our IRP includes 75 megawatts of battery storage beginning in 2024 and could accelerate or increase the 550 megawatts of battery storage through 2040. These tax advantages reduce the cost of new solar roughly 15%, providing annual cost savings of $60 million versus our plan.

Also, with the use of tax deductions and credits, we do not expect a material impact in the alternative minimum tax for the remainder of the decade. All of this helps our customers with more savings. It supports our commitment to grow Michigan. It drives the transformation to clean energy and our growing voluntary green pricing program. Bottom line, this legislation is a great tailwind across the board.

Now, let's get into the numbers. Year-to-date, we've delivered $2.29 of adjusted earnings per share and remain ahead of plan. With confidence in this year, we're raising the bottom end of our guidance to $2.87 to $2.89 per share from $2.85 to $2.89 per share. For 2023, we are initiating our full-year preliminary guidance of $3.05 to $3.11 per share, which reflects 6% to 8% growth off the midpoint of our revised 2022 guidance. And we expect to be toward the high end of that range. And remember, we always rebase our guidance of actuals, compounding our growth. This brings you a higher quality of earnings and differentiates us from others in the sector.

Our long-term dividend growth remains at 6% to 8%, with a targeted payout ratio of about 60% over time. We'll provide you with an update on our guidance, as well as a refresh of our five-year capital plan on the Q4 call early next year. Lastly, we are confident in both our outlook and our ability to deliver our financial and operational targets for the remainder of the year, which brings me to my last slide.

In a few weeks, Michigan will have elections across the state. New people will join the legislature. We'll also see the results of the race for governor. Whatever the outcome, we will work effectively as we have for decades, with whoever holds office. You've heard us say it before. We deliver regardless of condition, nearly two decades of industry-leading financial performance. You can count on CMS Energy for that.

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

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## Rejji P. Hayes

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

Thank you, Garrick; and good morning, everyone. As Garrick noted, our third quarter results are a continuation of the strong performance we have delivered throughout the year, keeping us ahead of plan and positioning us well to achieve our financial objectives in 2022. To elaborate, year-to-date, we have delivered adjusted net income of $662 million or $2.29 per share, up $0.11 per share versus the comparable period in 2021, largely driven by favorable weather, including more normalized storm activity in our service territory and healthy economic conditions in the state.

The waterfall chart on slide 8 provides more details on the key year-to-date drivers of our financial performance versus 2021. As Garrick mentioned, our solid year-to-date, performance has driven our revised 2022 adjusted EPS guidance, which reflects an increase in the lower end of the range to $2.87 from $2.85. So, our 2022 adjusted EPS guidance has now been raised and narrowed to $2.87 to $2.89.

As noted, favorable sales continue to be the primary driver of our positive year-over-year variance, largely driven by weather, equating to $0.13 per share of positive variance. Our strong sales were partially offset by planned increases in operating and maintenance or O&M expense, largely driven by customer initiatives which are embedded in rates to improve safety, reliability and our rate of decarbonization to the tune of $0.03 per share of negative variance versus the first nine months of 2021. It's worth noting that the aforementioned year-over-year increase in O&M expense was partially offset by lower service restoration expense versus the comparable period in 2021 as anticipated.

Lastly, the $0.01 per share of positive variance in the final year-to-date bucket reflects higher non-weather sales at the Utility, attributable to continued strong commercial and industrial load in our electric business, slightly offset by drag at the Parent from our preferred stock dividend and select regulatory items.

As we look to the fourth quarter, we feel quite good about the glide path to achieve our revised full-year EPS guidance range. As always, we plan for normal weather, which we estimate will have a positive impact of about $0.08 per share versus the comparable period in 2021. We are also assuming $0.11 per share of positive variance versus the fourth quarter of 2021 attributable to rate relief associated with the October 1 implementation of new rate from our constructive gas rate case settlement earlier this year. And these estimates are stated net of investment-related costs, such as depreciation, property taxes and interest expense.

In addition to said costs, our plan assumes increased O&M expense in the fourth quarter versus 2021 for key customer programs such as vegetation management, one of the most effective measures to reduce system outages. And I'll note that we're on course for record level of vegetation management spend in 2022, given our focus on improving the reliability of our grid. We also expect to continue to benefit from normalized storm activity, which nets to $0.11 per share of positive variance versus the comparable period in 2021.

To close out our assumptions for the remainder of 2022, we assume the usual conservative assumptions for our non-utility business and weather normalized load at the Utility. We have also maintained a healthy level of contingency, given our strong year-to-date performance, which when coupled with our non-utility and load assumptions, equates to $0.17 to $0.19 per share of negative variance highlighted in the penultimate bar of the chart. As such, we have substantial financial flexibility heading into the final three months of the year, which increased our confidence in delivering for customers and investors in 2022 and beyond.

Turning to our 2022 financing plan on slide 9, I'm pleased to report that we have successfully completed our planned financings for the year with $800 million of debt issuances at the Utility priced at a weighted average coupon of 3.9%, which is well below indicative levels in the current environment. And while our plan did not call for any financings at the Parent this year, we opportunistically priced approximately $440 million of equity-forward contracts during the quarter at a weighted average price of $68 per share. Our timely execution of the equity forwards locks in attractive terms for the Parent financing needs of the pending acquisition of the new Covert natural gas generation facility. The settlement of the equity forwards will largely occur in the first half of 2023, concurrent with the acquisition timing and in accordance with our recently approved Integrated Resource Plan.

Staying on the balance sheet, as we move into the winter heating season, we have preserved a strong liquidity position, which supplements our use of commercial paper. And needless to say, we'll continue to monitor market conditions to try to lock in attractive terms for future financing opportunities at the Utility. Lastly, it's important to highlight that we have no debt maturities or planned financings at the Parent in 2023 and virtually no floating rate exposure outside of the Utility, which largely insulates our income statement from future interest rate volatility. Our opportunistic, yet prudent financing strategy reduces costs while limiting uncertainty in our cost structure, enabling us to fund our capital plan in a cost-efficient manner to the benefit of customers and investors.

And with that, I'll turn the call back over to Maxine to open the lines for Q&A.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you very much, Rejji. The question-and-answer session will be conducted electronically. [Operator Instructions] Our first question comes from Insoo Kim from Goldman Sachs. Please go ahead. Your line is now open.

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

Q

Yeah, thank you. Thanks for the updates. Just first question, I think there's just been a lot of conversation about the recent opening of the docket for the Michigan storm audit process. Can you just give us an indication of the conversations you've had with the Commission, kind of where their heads are at and what the potential range of outcomes could be here?

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

A

Yeah. Thanks, Insoo, for your question. A couple of things on this. And I think it's important to understand, particularly in August, here had some storm. We performed well during the storm, but again, it's catching a little media attention. And I think one of the things that's really important to recognize here in Michigan is the impacts of the Great Lakes and what Lake Michigan does to the weather and storms.

And then, also, just the longer-term trend we see is increasing wind speeds across Michigan, in part due to climate change. And the bottom line is we see a real investment opportunity in resiliency. The Commission has been supportive for many of the reliability and resiliency efforts in our electric rate case, but there's more to do. There's more to do in this space. And so, I really view this as a collaboration where we can work to – again, I think we're both the Commission and the company are well aligned here, what we need to do in terms of reliability and resiliency. So, I really view it as an opportunity, where those opportunities are and create the path to improve that for our customers.

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

Q

Is there any set timeline on when we should have more clarity on the outcome from all of this?

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

A

There's a first effort that's due here November 4. I would imagine the audit takes place over much of the fiscal year of 2023. And again, I see it as a collaborative effort. We want the same thing. We have the same goal. And it's really aligned to make sure we have all the right measures and investments in place to achieve that goal. And they're at the right speed and pacing.

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

Got it. My last question, just thank you for the preliminary guidance on 2023 and pointing to that upper end, should we think of. If the Covert acquisition and the financing all embedded in that upper end. And I guess what potential items could deviate from that range, even if it could be potential upside from there? Thanks.

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

Yeah, the short answer is, yes, on Covert and the financing is in that piece. But I'm going to just step back and think of the bigger picture here, and so, how I think about this and how we think about this as a company. So, this guidance here, 6% to 8%, and we expect it toward the high end. We really think that offers a premium across the sector. And we've been doing this for 20 years of industry-leading financial performance.

And then, I think, what's unique about us and again differentiates us and is a strength, and frankly, a premium is that we rebase off actuals. So, we do this time and time again. And so, we're not into sugar highs. It's the long-term play, where we're going to continue to deliver 6% to 8% toward the high end. So, I feel good. We feel good about the guidance we've offered here today at $3.05 to $3.11.

And one more thing on this, I want to make sure everyone understands, too, that this is important balance, a balance of our customers, other stakeholders like regulators and legislators, as well as you, our investors.

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

Got it. Thank you so much.

**Operator**: Our next question comes from Shar Pourreza from Guggenheim Partners. Please go ahead. Your line is now open.

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*
Q

Hey, guys. Good morning.

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

Hey. Good morning, Shar.

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

Good morning, Shar.

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*
Q

Morning, morning. So, just the question on IRA, and I guess, how that impacted your thoughts around the IRP. I mean, clearly, you guys highlighted the customer benefits and lower cost of solar. But does it or can it trigger, I guess, any sort of revision to the plan as it currently stands? Garrick, I think you may have alluded to a little bit of that in the prepared. And in particular, do you have any sort of tax equity embedded in renewable spending? And do you have any opportunity to avoid tax equity where we could see potential increase in rate base?

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

A

I'll tag team this with Rejji here. This IRA is really beneficial for our industry and beneficial for our customers. And so, as you know, we've laid out our IRP, the 8 gigawatts, the storage build. It's a nice plan and we go in every three to five years to revise that. And so, in the short term, I really see the benefit of the IRA in this production tax credit, flowing right to our customers. That's the $60 million per year versus plan. So, that's – again, keeps our customers' cost low, frankly. And remember this IRP had $600 million of savings already baked in over that, and this is incremental to that. So, again, feel good about that.

In respect to my other comments, we'll file, refile our IRP in three years to five years. And with this, with the IRA, there's upside opportunities in terms of – or tailwind opportunities in terms of pulling renewables forward, potentially pulling storage forward. We'll have to take a look at that. Again, I see this as a real advantage to utility-owned solar and storage versus PPAs.

I know, Rejji, you may have additional commentary.

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

A

Yeah, Shar. I would only add a couple of comments here. The other benefit, too, is just with the continuation of the tax credit for electric vehicles, while that certainly could be a catalyst in accelerating the tipping point of electric vehicle proliferation in Michigan. And obviously, that would bring rate benefits as well, because you're growing the denominator in that rate calculation and bring kilowatt hours into Michigan, which we would welcome. So, there's a benefit there that should be, at some point, incorporated into our financials longer term.

With respect to your question around financing, we're not presupposing any tax equity in our funding strategy. So, the IRA, there's been a lot of talk about the transferability of credits. I still think there's more guidance required from the IRS, and we'll see what type of market develops as a result of transferability of credits. We certainly do have credits that we can monetize at some point, but at the moment, we're not presupposing any tax equity in our financing assumptions.

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*

Q

Okay. Sorry, Garrick, just a quick follow-up. It's just, I guess, you guys have never had a shortage of capital growth opportunities, right? It's always been a function of bills and rates being that kind of governor customer rates. I guess, the $60 million incremental in customer savings, does that allow a pull-forward of some of that spend because you have that incremental headroom, or do we have to wait for the additional IRP filing? I guess, I'm just trying to figure out how that plays in.

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

A

Yeah. I don't think you have to wait to the IRP filing for that. It's really a function of how we build out our capital plan. I mean, as we've shared historically we look at what the customer can afford. We look at how can we execute work. We look at the business cases. We look at the mix; where we put in dollar strategically, so the bottom-up build-up for that capital plan.

And so, as we're able to create more headroom or as we have, in the case of affordable bills, we look at how do we put those important capital investments into the system that ultimately provide value for our customers. And so, that's the balance we'll strike, and you'll see it as it plays out here in our Q4 call in the five-year capital plan.

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*

Q

Okay, perfect. And then maybe just a quick one for Rejji. Just, I guess, beyond the Covert purchase, as you guys are looking at your five-year plan and rolling in more IRP spending into plan, including renewables, do you anticipate any associated financing need, or the issuance last quarter took care of those needs as we're thinking about the current plan and slightly beyond the current plan, I guess.

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

A

Yeah. Yeah. So appreciate the question, Shar. And just for semantics, we haven't issued the equity yet, we just put in place forward contracts.

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*

Q

Yes, yeah.

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

A

And so, we've locked in the price, we'll issue obviously over the course of 2023, in the first half of the year. But the forwards we've put in place really provide for the funding for the Parent financing needs at Covert. We have yet to roll out, obviously, a new five-year plan, but the current plan of $14.3 billion that we're executing on, as you may recall, we've been very consistent in our comments about the equity funding needs being limited to 2025 and 2026. So, about $250 million per year in those outer years.

And because of the sale of the bank last year, there's no equity needs prior to that. And so, we'll see what happens when we start to update the capital plan. And in addition to comments Garrick offered on how we think about the capital plan, affordability is a constraint we're mindful of; the other one is financing. And we don't want to over-lever, over-equitize the balance sheet, so we'll be mindful of that. And then, obviously just execution, feasibility of the capital plan – of executing on the capital plan is the other thing we'll think through.

**Shahriar Pourreza**
*Analyst, Guggenheim Securities LLC*

Q

Okay, perfect. The last point was I was trying to get at. Thank you so much, guys. Appreciate it. See you soon.

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

A

Thanks, Shar.

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

A

Thank you, Shar. See you at the EEI.

**Operator**: Thank you. Our next question comes from Jeremy Tonet from JPMorgan. Please go ahead. Your line is now open.

**Jeremy Tonet**
*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning.

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

A

Hey. Good morning, Jeremy. How are you?

**Jeremy Tonet**
*Analyst, JPMorgan Securities LLC*

Q

Good, good. Thanks. Just want to talk a bit more on 2023 EPS guide here, if you could, the drivers. And just wondering if you could flesh out for us the contributions, Covert in 2023. And when you're thinking about sales trends, what do you anticipate for sales trends for 2023? How does that compare to kind of current trends? Just kind of trying to get a feel for upside versus downside drivers within the guidance range.

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

A

Sure. I'll start, and I know Rejji will offer some context around it as well. So, again, I want to remind everybody, as I stated earlier here, that it's 6% to 8% toward the high end, and we're pleased with that. And that includes Covert. As we've said, the Covert strengthens and lengthens our plan here.

And so, when I think about this, this is – again, we're playing a long-term game here where we have this consistency and repeatability of delivering industry-leading financial performance. And so, that's how we're thinking about it as we move in 2023, and then even in the outer years. But, Rejji, walk through some of the specifics, please.

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

A

Yeah, sure. So, Jeremy, again, appreciate the question. The Covert acquisition, as we discussed, I think in Q2 of this year, we anticipate that being about $0.03 to $0.04 of EPS upside versus plan. And then, the financing for the equity should offer $0.01 or $0.02 on top of that. And so, that's all incorporated into the guide, as Garrick mentioned. And so, we could spend more time on the details of that, but that's what's embedded in that $3.05 to $3.11 guide.

With respect to sales, as you know, we plan conservatively, and so we're assuming, as it pertains to weather that clearly, this year so far has been quite good. And so, we would anticipate a little bit of a headwind just planning for normal weather versus what is a strong 2022 comp. On the non-weather side, we've been surprised to the upside really starting with the pandemic.

And so, we've just seen a nice bit of upside in terms of favorable mix with residential load outperforming expectations the last couple years. We'll plan conservatively and still assume that you see that pre-pandemic level of residential load. And again, I think, we're seeing very good momentum on the commercial and industrial side, and we would expect that to carry on into 2023.

And so, those were the puts and takes with respect to Covert and sales, the only thing I would add just to just finish out on the drivers for 2023 is that clearly we had a constructive gas rate case settlement earlier this year. And so, we should expect to see the benefit of that increase in rates, which went effective October 1 of this year start to flow into the heating season in Q1 of next year, so for the first three or four months of 2023. And then, we've got a pending electric rate case and anticipate a constructive outcome there as well. So, those are kind of the primary drivers. You got Covert. You've got conservatism on sales. You've got then the rate relief that we anticipate from constructive outcomes. Is that helpful?

**Jeremy Tonet**
*Analyst, JPMorgan Securities LLC*

Q

Yes. No, that's very helpful. And just want to pivot a little bit to battery storage, if I could. And just wondering if you could provide some more thoughts on how you think the system need could potentially change over this decade, especially if renewable penetration ticks higher than planned from IRA benefits? And is there anything else you're watching out for on this front?

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

A

Thanks, Jeremy. That's a great question. So, in our IRP, we have 75 megawatts and that has to take place in 2024 to 2027. And we've already issued the RFP for that work, and so that's well underway. And so, you'll see inclusion of that in our five-year capital plan.

But clearly, what is nice about this ITC and the flexibility that's offered within the IRA is you can have standalone solar. So, typically it's been coupled with solar and so the ability to move storage around and have it be not just a supply asset, but have it be a grid asset, provides a greater amount of flexibility in how we use, and so, you can see like the value stacking of a storage of lithium ion and other storage technologies. And so, we look forward to that. We're going to continue to look in our five-year plan, but also in the longer-term strategy on how we might accelerate or how we might think about differently the deployment of lithium ion and other storage technologies.

And I know Rejji has some comments on this as well.

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

A

Hey, Jeremy. The only thing I would add is it's important to remember that the IRP is iterative in nature, and so we'll be filing one per the statute, at a minimum, every five years, but our bias will likely be to file sooner than that. And so. the importance of that and the benefit of it is that as we see a potential descent in the cost curve, whether to Garrick's point, it's lithium ion or any other storage technology, we can incorporate new assumptions in upcoming IRPs.

And so, we're assuming in the full plan over the next 15 to 20 years, about 550 megawatts, as Garrick noted, the 75 megawatts in the short term. but it's a larger portfolio longer term. And again, if the cost curve permits it, we'll look to pull some of that forward and potentially expand it, particularly with the optionality provided with the ITC, using it for standalone storage as well as opting out of normalization, which is helpful too.

**Jeremy Tonet**
*Analyst, JPMorgan Securities LLC*

Q

Got it. That's helpful. And just a real quick last one, if I could. Just wondering what the potential impacts for rate payers could be, should Palisades successfully reopen? And does this change how you think about future customer savings should this transpire?

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

A

Let me offer a couple of comments on Palisades. So, if we get into technical questions like – we don't own and operate – own the plant. We don't operate the plant anymore. And we no longer have a purchase power agreement, which was a significant savings for our customers and power supply costs over the course of the year. So, technical questions and related questions that should be really directed to Holtec or maybe the Department of Energy and the like.

But bottom line, here's what we've shared with the governor's office and with the Michigan Public Service Commission. We'll be open to a purchase power agreement. It has to be a much more competitive and much more market-based than it has been historically. And we would expect a financial compensation mechanism on that PPA as a new purchase power agreement. So, that's really what I'd offer on Palisades at this point.

**Jeremy Tonet**
*Analyst, JPMorgan Securities LLC*

Q

Got it. Makes sense. I'll leave it there. Thank you.

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

A

Thanks, Jeremy. See you at the EEI.

**Operator**: Our next question comes from Julien Dumoulin-Smith from Bank of America. Please go ahead. Your line is now open.

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

Q

Hey. Good morning, team. Thanks for the time. Appreciate it.

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

A

Hey, Julien.

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

Q

Hey, listen, maybe just starting – Hey, thank you. Just starting with preliminary, right. I want to focus on that word. Can you emphasize – or can you please support, why you used the word preliminary at the outset? What are the moving pieces in your mind if we can go back to that quickly in terms of when you pivot to a more finalized guidance and what you're watching here in the next few months, just want to clarify that?

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

A

Yeah. Preliminary because we rebase off actuals, and that's the short of it. And so, as we wrap up Q4, which again, year-end I feel good about, we'll deliver within that guidance range we've provided, and then we'll rebase off actuals. And so, when I think about this year and this guidance – of course, we've tightened the guidance, raise the bottom end, which should be an indicator of confidence – I'm really thinking about the midpoint of that guidance, and again managing the work. So, imagine the storms and other things that come our way that we typically deal with. And then, we'll look for reinvestment opportunities also as we go through the remainder of the year. And those reinvestment opportunities de-risk 2023 and ensure a path of success for 2023.

And so, that's how it'll play out through the remainder of the year. I don't know, if Rejji, you want to add to that?

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

A

Julien, the only thing I would add, in addition to just it's Q3 and we'll rebase off of actuals in Q4 and take into account any contingency deployment over the next couple of months, but the other variables is obviously we have a pending electric rate case, and so we'll have a little bit – a couple months more of visibility into how that's trending. We're certainly in the process of evaluating potential settlement, so we'll see how things go there.

And then, at that point, we will have filed the gas rate case. And so, we're still thinking through the size and implications of that and we'll assume a constructive outcome there, but still some variables in play. So, that's the other bit of information we'd look for as we establish our 2023 final guidance on our Q4 call early next year.

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

Q

Got it. Okay. All right. Fair enough. Thank you. And then, if I can, just going back to the last question little bit. Can you talk about how any revisit of a contract with Holtec and/or Palisades could actually feasibly play itself out vis-à-vis your IRP and/or RFP processes? Obviously, it's a little bit less than traditional. I get that DOE's involvement is also less than traditional, but I just want to rehash a little bit like how that would fit into your ongoing processes that are continually in flight and admittedly of late have somewhat been crystallized at least in the near term?

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

A

So, just for context – and I know you know this, Julien, but for context for others on the call. There's 700 megawatts within this IRP, that's 500 megawatts is dispatchable, 200 megawatts of clean energy. That RFP has been issued. It was issued at the end of September. That's going to play out. It's done through a third-party because of the potential for an affiliate transaction with the DIG, so that plays out. We anticipate those proposals to be submitted in the December timeframe. Those will be evaluated again by the third-party, that will take just February. And then we anticipate we'll have some direction in that in the May timeframe, or likely share it at the May earnings call timeline. So, that's how it's going to play out.

I do not know who will participate in that. Again, it's by a third-party. Should Holtec choose to participate with the Palisades plant, and if it comes in at a competitive price, it may be an option out there. And again, because it's not an affiliate, we would earn a financial compensation mechanism or a return on that. So, that's the approach that would play out here over the course of the next eight months.

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

Got it. I know you can't – I can't comment too much on it, but I appreciate it. Thank you guys very much. Good luck, speak to you soon. Thanks.

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

Thanks, Julien.

**Operator**: Our next question comes from David Arcaro from Morgan Stanley. Please go ahead. Your line is now open.

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

Hey, good morning. Thanks for taking my question.

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

Hey, David.

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

You alluded to it, but just any latest thinking on the electric rate case and potential for settlement? And then, I was just curious what timing you would be contemplating for the next electric rate case filing at this point in terms of the gap between the rate cases here?

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

Well, just a little background, too. And so I was really pleased with the team. And we did a lot of work on this electric rate case to improve the quality of the case. And I believe and see it's evident in Staff's position on that. It's a constructive starting point that they provided in August.

And so, as Rejji shared, we're looking at the potential for electric rate case settlement, and so that'll continue until the case is final. We anticipate PFD in December and then a final order in February. So that's the current status. And then, just a longer – we have the opportunity – we're on a 10-month cycle, and so to be really in 2023, would we consider another filing, another electric rate case. And that's a little far out for us in terms of we're going to want to see how this one plays out and make sure we're making the right investments for our customers.

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

Yes. That makes sense. Thanks. And was just wondering if you could give the latest in terms of what you're seeing in terms of cost pressures from inflation, whether it be labor, materials, components; and just how that's impacting the O&M outlook here?

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

A

That's a great question. And I appreciate you started with our customers because that's a key piece. And so just let me give you a little fact here to this. And so, in 2021, we have $75 million of state, federal and some company funds that went to our customers. In 2022, that number was $79 million. And again, just for context, October to October is the fiscal year for state. And so, I'm really pleased that we've been able to get money in the hands of our customers. And you'll see from a quarter – our customers have a lower debt balance or bad debt balance on their bills. They're not carrying a big balance. And in fact, from uncollectibles perspective, we're in a quartile one position. So, I feel good because our customers are starting out in a better position.

Now, I'm certainly empathetic and sympathetic to their needs. And so, what we know about our customers when we look at their bill. About 80% of a gas bill is consumption. It's about 90% on electric bill. We can influence that. We can influence that through our energy waste reduction, energy efficiency programs. And we are doing that, and that's great for our customers. In addition, we're handing out 30,000 thermostats, free thermostats for those that are most in need, vulnerable customers to help them again control the use. We're pushing again with nonprofits and other state and federal funds. And so, our focus is clearly on our most vulnerable customers here in this time.

And then broadly as a company, and you asked the question, really, have we seen material prices increase? Absolutely, 7% year-over-year. But there's a lot of things we're doing to mitigate that particularly in the CE Way, $50 million of O&M waste reduction, $90 million – approaching $90 million on a capital perspective. Our plants ran just – again, they ran phenomenally over the summer months. They've got a low heat rate, gas and coal. MISO was bouncing all around, the volatility of the market. Ours were steady state. We saved our customers $500 million year-to-date. Looks like $700 million by year-end. Again, we used our gas assets, all these storage fields to help manage gas cost impact. So, those are the here and now.

And then we have a whole host of episodic cost savings, $200 million. The Palisades for PPA – the Palisades PPA fell off. Karn retires, Karn 1 & 2 retires, $30 million of O&M there. So, IRA in that PTC, again, I can go on and on. But you can see we're squarely focused on cost reduction for our customers, creating the necessary headrooms, so we're making the right investments to improve the system again for our customers to manage that.

And I know Rejji has even more to offer.

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

A

Yeah. Garrick, I think you've covered all the key points on the cost side. The only thing I'll remind you, David, is that we're still looking at load opportunities as well. The announcement of Gotion from an economic development perspective, the global electric vehicle battery manufacturer out of China, that ,as we see it is the beginning of what is going to be likely a fruitful period of good economic development opportunities as a result of the good legislation passed over the past several months. The CHIPS Act and the IRA have really created a once-in-a-generation opportunity to bring really good load opportunities to Michigan. And that helps the equation as well.

And I mentioned earlier some of the benefits of the IRA if it accelerates. The tipping point for EV growth proliferation in Michigan, that helps the load equation as well. And so, we're looking at all the cost opportunities as Garrick enumerated, but we're also looking at top line as well to reduce rates.

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

Okay, great. Lot of helpful points there. Thanks so much, and see you soon.

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

Yeah.

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

Yeah. Thanks, David.

**Operator**: Our next question comes from Travis Miller from Morningstar. Please go ahead. Your line is now open.

**Travis Miller**
*Analyst, Morningstar, Inc.*
Q

Good morning. Thank you.

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

Morning, Travis.

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

Hi, Travis.

**Travis Miller**
*Analyst, Morningstar, Inc.*
Q

I was wondering, you highlighted, obviously, the business load that you see coming in the industrial load. What does that mean in terms of mix of capital investment need or any kind of other need when we're thinking about distribution versus generation? Is that type of load something where it will get more distribution investment to serve it or more generation-type investment to serve it?

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

It's a little bit of both. But the immediate piece is really in the space of distribution. So, these companies are located here like – if you take HSC as an example, or Hemlock Semiconductor, they're building out that load right now. And so, we're looking at the existing substation and how do we offer additional redundancy and buildout.

In the case of Gotion, again, they're constructing their facility, so a little further behind from a start point, but again, you're going to be running electric line and build a substation dedicated to that facility. And so, the first steps really show up in the distribution space for investment. And you'll see those as part of our five-year capital plan to be able to begin build and construct those.

And then really, a beautiful part of the Integrated Resource Plan, we continue to look out 20 years and balance the demand needs and supply needs. And right now, we look long on capacity, really through 2031, so we have room to grow and add these investments. But as Michigan continues to grow and we continue to add load, we'll make adjustments as we move forward in our subsequent IRPs from a supply side. Is that helpful, Travis?

**Travis Miller**
*Analyst, Morningstar, Inc.*

Q

Yeah. Yeah, that helps. That's exactly what I was asking. You answered everything else that I had asked, so I appreciate it. And see you in a couple of weeks.

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

A

Yes. Take care.

**Operator**: Our next question comes from Anthony Crowdell from Mizuho. Your line is now open. Please go ahead.

**Anthony Crowdell**
*Analyst, Mizuho Securities USA LLC*

Q

Hey. Good morning, Garrick. Good morning, Rejji. Congratulations on the great quarter.

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

A

Hey. Good morning.

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

A

Thanks Anthony.

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

A

Thank you.

**Anthony Crowdell**
*Analyst, Mizuho Securities USA LLC*

Q

And I apologize, this is real semantics. I understand if you just want to ignore the question, but if I think about it, you talk about the IRP maybe strengthens and lengthens the CMS plan, and then when I fold over to earnings guidance of 6% to 8% towards the high end, if I look at 2023 where it's kind of preliminary – it's right now at 7% more the midpoint – I guess, I'm trying to reconcile 6% to 8% towards the high end, is that just take 6% out of our planning assumptions or is 6% to 8% towards the high end, 8%?

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

A

I love your question, and I'm not going to ignore it. So, let's answer it. Just go back in history a little bit. Even pre-EnerBank, we guided at 6% to 8%. And we always said we had a bias toward the midpoint. That's how we approached it. And now, our language is definitely different. And it's 6% to 8%, and we expect to be toward the high end. And so, that's the approach going forward.

And we look for repeatability into that. And so, as you saw in our 2023 preliminary guidance, it's off that midpoint of 2022. But again, we're saying 6% to 8%, expect to be toward the high end. We'll rebase off actuals, as we always do. But you can expect year-after-year, we're going to be – that consistency of industry-leading financial performance that we're going to we're going to continue to guide in that 6% to 8% range, again, toward the high end. That's what I'd offer. Is that helpful?

**Anthony Crowdell**
*Analyst, Mizuho Securities USA LLC*

Q

Okay. Last shot at it, and then I'm finished. If I look back in the last 18 years, you guys delivered very consistent 7%. You view the performance, when I look back 18, that you hit the high end of that 6% to 8% range?

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

A

I don't know what data you have in front of you, but I can only talk about what we have or in the context of the call here in our 2023 guidance. So, we've said $3.05 to $3.11, and I would expect that we would be to the high end of that range. Does that clear it up?

**Anthony Crowdell**
*Analyst, Mizuho Securities USA LLC*

Q

Perfect.

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

A

I wouldn't anticipate to miss that. I would expect the upper half of that range.

**Anthony Crowdell**
*Analyst, Mizuho Securities USA LLC*

Q

Perfect. Thanks so much and looking forward to seeing you in Hollywood.

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

A

See you there.

**Operator**: Thank you. Our final question today comes from Michael Sullivan from Wolfe Research. Please go ahead. Your line is now open.

**Michael P. Sullivan**
*Analyst, Wolfe Research LLC*

Q

Hey. Everyone, good morning.

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

A

Morning, Michael.

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

Morning, Michael.

**Michael P. Sullivan**
*Analyst, Wolfe Research LLC*
Q

Hey. Just wanted to ask on, just with your own renewables becoming more competitive post-IRA, I think, the current plan has 50% ownership in there. What is the CapEx associated with that and if you were to be cost-competitive across the board and go to 100%, what would that look like theoretically?

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

Yeah. Michael, our – I assume you're asking about the full portfolio of 8 gigawatts, is that fair?

**Michael P. Sullivan**
*Analyst, Wolfe Research LLC*
Q

In the current, yeah. Yeah. Either way, whatever is easiest for you; the current five-year plan, the IRP that just got approved?

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

Yeah. So, for the 8 gigawatts, we've roughly quantified in the past that 50% ownership of that could be around $4 billion. But again, with cost curves reducing the way they are, and that was a pre-IRA assumption, so presumably it could be a lower amount of CapEx. But we would expect to own, as Garrick highlighted, greater than 50%, over time, if we continue to see the cost of owning continue to be more and more competitive with the cost of contracting. And so, we'll revise those estimates over time.

In the five-year plan. Currently, we've got about $1 billion of solar in the plan. And obviously, we'll refresh the capital plan in the first quarter as we have our fourth quarter earnings call next year. So, we'll give an update then, but the current plan at about roughly $1 billion in it.

**Michael P. Sullivan**
*Analyst, Wolfe Research LLC*
Q

Okay, that's super helpful. And then just kind of following along that. Again, this is kind of theoretical, but if you start finding that you are more cost-competitive, more regularly here, do you limit that at all, if that introduces more equity needs into the plan?

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

So, the current construct per the settlement agreement has a natural cap of 60%, and so it's effectively collar from 50% to 60% for ownership. And so, we wouldn't be able, contractually, to go above that now, but in subsequent IRPs, we could potentially earn more than that, and so we'll revisit it. And particularly, if we're cost-competitive, with contracted solutions, we'd like to think, you know, that ceiling could potentially come off.

But I would say, you know, Garrick highlighted this earlier. I emphasized it as well. When we think through the capital plan, the constraining factors are three things. It's affordability, so making sure that the rate increases are relatively modest as we execute on the capital plan. We also think about the feasibility of executing. We do not want to significantly grow our workforce, execute on the capital plan because that has, structural cost implications. And so, there's the operational feasibility aspect we take into it.

Then, there's a balance sheet. And we'd rather not over-equitize or over-lever the balance sheet in order to fund a capital plan. And so, that's generally how we think about building out the capital plan and we'll take that into account as we construct this latest capital plan that will provide in the first quarter next year and obviously subsequent capital plans after that.

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**Michael P. Sullivan**
*Analyst, Wolfe Research LLC*

Q

Thanks, Rejji. Super helpful.

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**Operator**: That concludes our Q&A session for today. I will now turn the call over to Mr. Garrick Rochow for closing remarks.

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

Thanks, Maxine; and thank you, everyone, for joining us today. Look forward to seeing you at EEI in a few weeks. Take care and stay safe.

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**Operator**: This concludes today's conference. We thank you for your participation.