

# CMS Energy Corporation NYSE:CMS

## FQ3 2023 Earnings Call Transcripts

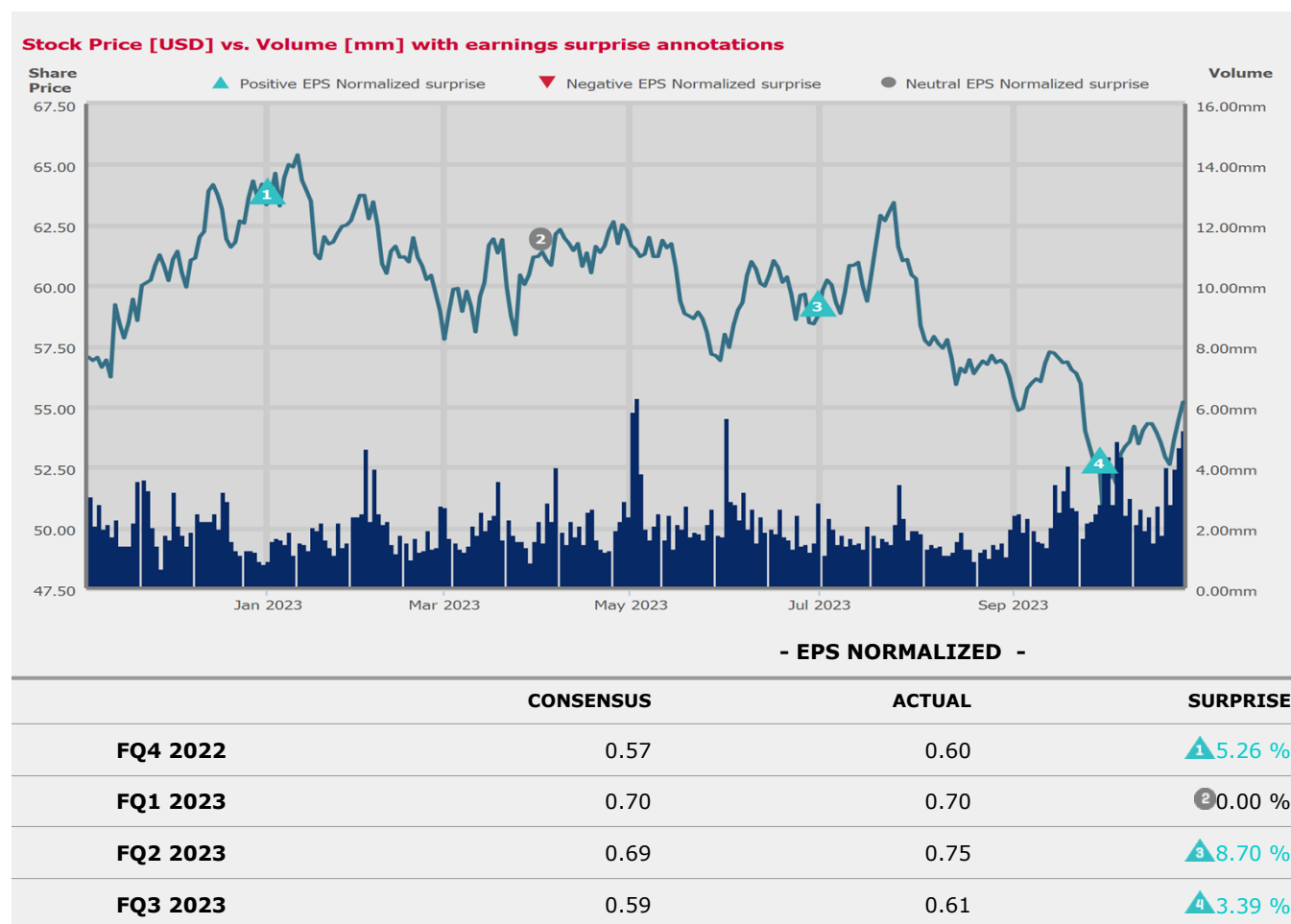
**Thursday, October 26, 2023 1:30 PM GMT**

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	0.59	0.61	▲ 3.39	1.05	3.10	3.35
<b>Revenue (mm)</b>	2121.56	-	▼ (21.14 %)	2531.56	8552.44	8903.52

Currency: USD

Consensus as of Oct-25-2023 10:11 PM GMT



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# Call Participants

## EXECUTIVES

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*President, CEO & Director*

**Rejji P. Hayes**  
*Executive VP & CFO*

**Srikanth Maddipati**  
*VP of IR & Finance and Treasurer*

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# Presentation

## Operator

Good morning, everyone, and welcome to the CMS Energy 2023 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.

[Operator Instructions]

Just a reminder, there will be a rebroadcast of this conference call today, beginning at 12:00 p.m. Eastern Time running through November 2. 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, Treasurer and Vice President of Finance and Investor Relations.

## **Srikanth Maddipati**

*VP of IR & Finance and Treasurer*

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

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

Now I'll turn the call over to Garrick.

## **Garrick J. Rochow**

*President, CEO & Director*

Thank you, Sri, and thank you, everyone, for joining us today. What sets us apart in this industry is clear, and it's been proven for over 2 decades, our simple, cleaner and leaner investment thesis. We've talked about this in many calls in many investor meetings, and it works, a long and robust capital runway, a best-in-class ability to take cost out of the business to create headroom for needed investments and keep bills affordable for customers.

Couple that with a constructive top-tier regulatory environment, and that is our recipe for premium total shareholder return. Today, I want to highlight one part of our investment thesis, infrastructure renewal. It starts with our 5-year \$15.5 billion capital plan, which supports a long runway for important customer investments. This allows us to do what is most important for our customers, deliver safe, reliable, affordable energy and lead the industry in the clean energy transformation.

We are one of the first vertically integrated utilities to switch from coal to clean by 2025, leading the industry with net zero carbon by 2040 aligned with customers, policymakers and our strategic plan, positioning us for the future. In our gas business, we are on pace to net zero methane by 2030 and with a 20% reduction in Scope 3 emissions, one of the few in the industry, making the gas system safer and cleaner.

And in our electric distribution system, we are hardening the grid to make it more reliable today while preparing for the resiliency that will be required for EVs, connected devices and to mitigate impact of climate change. Our electric distribution system is vast, covering much of the lower Peninsula of Michigan, but it's aging. We are seeing more frequent and severe weather, which proves the future will require something different because our customers count on us for reliable service.

Last month, we filed our electric reliability road map with the Michigan Public Service Commission, which outlined our plan to improve reliability and prepare the system for greater resiliency. Over the last 20 years, we've seen an increase in both the frequency of storms and higher wind speed with some of the most extreme winds within the last 4 years. We're clearly seeing the effects of climate change.

Given this, and the increasing dependency on the electric distribution system, we have set forward a plan that bolsters the system now and builds for the future. We worked with the leading industry research institute, EPRI benchmarking company as well as advancing technology to build a robust and comprehensive plan.

This 5-year electric reliability road map calls for \$7 billion of capital investment to harden the system, expand undergrounding, update infrastructure, increase capacity and advance automation. To give you a small snapshot, our plan includes roughly 1,000 miles of system undergrounding in the near term and longer term, significantly more undergrounding to ensure our system is prepared to withstand severe weather.

Originally, our design standard was for 40-mile per hour wind. With the wind speeds we are seeing today, our new standard is for 80-mile per hour wind and 0.5 inch of ice loading. This plan also includes further automation in machine modeling, adding technology to more precisely locate and isolate damage, reroute power and better predict problem areas, keeping more customers online and responding to outages faster.

We put our stake in the ground. We've identified the steps to improve reliability, a step change and build an electric grid that can better withstand extreme weather and better serve our customers in the future. With commission support, this plan will reduce the frequency and duration of outages while moving us into second quartile for reliability, coupled with additional customer investments, the longer-term vision delivers a grid where no outage will affect more than 100,000 customers and no customer will be without power for more than 24 hours.

We expect these investments to be part of our upcoming electric rate case filings and will be implemented upon commission approval. And let me be clear, we are already making progress. We've doubled our investment in vegetation management over the last 3 years, shortening our trim cycles. We've seen greater than 60% benefit where we've done the work. We've increased the amount of customer investments and upgrades fusing and hardening, installing nearly 15,000 fuse devices in the last 2 years, more than we've ever done, reducing the number of customers impacted per interruption.

We've increased our maintenance inspection frequency finding potential failures before they occur. And just last week, we were notified that of the nearly 300 companies who applied for grants from the Department of Energy, we were 1 of 7 companies who were awarded \$100 million for sectionalizing and improving circuits in disadvantaged communities. This is great for our company and our customers.

First, it accelerates investment which were already part of our \$7 billion electric reliability road map; second, this strikes the important balance of reliability improvement and affordability; and finally, because these are matching grants it provides greater line of sight and certainty for recovery of these needed customer investments. We take our commitment to serve seriously what our customers deserve. What we wake up every day to deliver. That's why we constructed our electric reliability road map.

On Slide 5, I want to take a moment to provide an update on our regulatory calendar. In September, we revised our position in our electric rate case to \$169 million and maintained our position for a 10.25% ROE and a 51.5% equity ratio. We're requesting approval of a 10-mile undergrounding pilot with plans to underground over 400 miles annually beginning in 2027, which aligns with our electric reliability road map, a small but important step in building out a program that can be supported by the Michigan Public Service Commission and will deliver significant improvement for our customers.

We also requested a recovery mechanism for investments in our electric distribution system to improve reliability. Similar to the mechanism we've utilized in our gas business, which creates greater clarity on the investment, and customer benefit while improving certainty of recovery. We expect the final order by March of next year. We also recently received approval from the Michigan Public Service Commission

on our gas rate case settlement, providing continued value for our customers and investors. These rates became effective October 1.

We plan to file our next gas rate case in December of this year. This case brings a continued focus on a safe, reliable, affordable and clean natural gas system while supporting needed customer investment. As we've shared in previous calls and in investor meetings, we continue to see the Michigan regulatory jurisdiction as constructive in providing a good balance for all stakeholders, living up to its ranking as top tier.

Moving on to the financials. For the third quarter, we reported adjusted earnings per share of \$0.61 and \$2.06 per share year-to-date. Rejji will provide additional details, but despite a significant storm in the third quarter, we remain on track to deliver on our full year guidance of \$3.06 to \$3.12 per share and expect to deliver toward the high end. Given that confidence, we are initiating our full year guidance for 2024 at \$3.27 to \$3.33 per share reflecting 6% to 8% growth off the midpoint of this year's range, and we are well positioned, just like 2023 to be toward the high end of that range.

It is also important to remember that we always rebase guidance off our actuals on the Q4 call, compounding our growth. This brings you a higher quality of earnings and differentiates us from others in the sector. We're also reaffirming our long-term adjusted earnings growth of 6% to 8% per year with continued confidence toward the high end and remain committed to dividend per share growth of 6% to 8%.

Like we've done in previous years, we'll provide you with an update on our 2024 guidance based off of actuals as well as a refresh of our 5-year capital plan on the Q4 call. We continue to be confident in our ability to deliver the year and in our longer-term outlook, providing exceptional value for all stakeholders. With that, I'll hand it over to Rejji to offer some additional details.

### **Rejji P. Hayes**

*Executive VP & CFO*

Thank you, Garrick, and good morning, everyone. As Garrick noted, we had a solid third quarter, delivering adjusted earnings of \$0.61 per share, driven by numerous cost reduction initiatives which have largely offset the headwinds that we have faced throughout the year, most recently in the form of a severe storm that hit our electric service territory in August.

To put the weather we have experienced in 2023 into perspective, we are approaching a record level of storm activity this year, which further supports the needed investments in our electric system that Garrick highlighted, and we have seen heating and cooling degree days of 11% and 24% below historical levels, respectively, on a year-to-date basis. That said, we do not make excuses and have implemented numerous countermeasures throughout the year to mitigate these risks and are well positioned to deliver on our financial objectives this year, for the benefit of customers and investors.

As such, we are reaffirming our guidance for the year, and on a year-to-date basis, we're on track with adjusted EPS of \$2.06 per share given our progress in the aforementioned countermeasures, which I'll elaborate on shortly. In the waterfall chart on Slide 7 for clarification purposes, all of the variance analysis therein are measured relative to the comparable periods in 2022. The actuals are quantified on a year-to-date basis and the prospective period reflects the final 3 months of the year.

Starting with actuals with respect to weather. The previously noted unfavorable weather experience in 2023, has driven \$0.49 per share of negative variance. Rate relief net of investment-related expenses has resulted in \$0.20 per share of positive variance driven by last year's constructive electric and gas rate case settlements. From a cost perspective, our financial performance through the third quarter has been significantly impacted by higher operating and maintenance, or O&M, expenses to the tune of \$0.21 per share of negative variance due to higher service restoration expenses attributable to storms.

However, it is worth noting that our operational O&M expenses exclusive of service restoration expense are down roughly 10% versus the third quarter of 2022, which highlights the significant cost performance we've realized across the business. To that end, and as previously noted, we implemented numerous cost

reduction initiatives early in the year such as reducing our use of consultants and contractors, limiting hiring, accelerating longer-term IT projects and eliminating other discretionary spending.

We have also supplemented these efforts with a voluntary separation program, or VSP, that reduced our salaried workforce by roughly 10%. And more importantly, as we leverage the CE Way, our lean operating system, we will continue to eliminate waste and increase productivity going forward. Rounding out the first 9 months of the year, you'll note that \$0.27 per share of positive variance highlighted in the catch-all bucket in the middle of the chart. We've seen this bar increase throughout the year as a result of our continued success in realizing cost savings through financing efficiencies, liability management, strong tax planning and favorable non-weather sales in our electric business during the summer.

As we look ahead to the fourth quarter, as always, we plan for normal weather, which we expect will have a neutral impact on our financial performance versus the fourth quarter of 2022. And we expect a similar financial impact for rate relief net of investment-related costs as the benefits of our recent gas rate case settlement and our 2022 electric rate case settlement are largely offset by the absence of tax benefits associated with a prior gas rate case settlement. From a cost perspective, as noted during our Q2 call, we anticipate lower overall O&M expense at the utility driven by the ongoing benefit of said cost reduction initiatives, which equates to \$0.17 per share of positive variance. It is also worth noting that the Q4 2022 comp for this bucket is notably soft given the higher-than-average O&M expenses incurred during that period.

Closing out the glide path for the remainder of the year, you'll note in the penultimate, catch all bar on the right that we're anticipating \$0.23 to \$0.29 per share of positive variance. As we've discussed previously, the key drivers here are the absence of significant discretionary actions taken in the fourth quarter of 2022 related to last year's electric rate case settlement and the filing of our voluntary refund mechanism, which collectively equate to \$0.12 per share. The remaining notable items that we anticipate in this bucket are from NorthStar, our nonutility business achieving its full year guidance and favorable non-weather sales at the utility, which have trended well over the past two quarters.

All in, we remain confident in our ability to meet our EPS guidance for the year. And as always, we'll take none of this positive momentum for granted and will approach these last 2 months of the year with the usual degree of paranoia by maintaining our cost discipline and flex additional opportunities as needed to deliver the consistent financial results you have come to expect.

Moving on to the balance sheet. On Slide 8, we highlight our recently reaffirmed credit ratings from S&P in August. As you know, we continue to target mid-teens FFO to debt on a consolidated basis over our planning period to preserve our solid investment-grade credit ratings. Our financing strategy and strong balance sheet position us well given the market volatility we've seen recently. At the utility, our annual rate case cadence and the use of forward-looking test years allow us to incorporate higher interest rates into our filings and recover the associated costs with minimal lag.

At the parent, where funding costs are non-recoverable, we have limited refinancing risk in the near term with \$250 million due in 2024 and 2025 and \$300 million coming due in 2026. And as noted during our second quarter call, the 2024 maturity has already been prefunded with proceeds from our convertible debt issuance in May. It is also worth noting that 100% of the debt at the parent companies is fixed and over 40% is hybrid in nature, thus receiving equity credit from the rating agencies.

In addition to strong liability management, we have continued to plan conservatively. And though debt funding costs have increased in the current environment, they remain consistent with the assumptions embedded in our long-term financial plan. As always, we remain focused on maintaining a strong financial position, which coupled with a supportive regulatory construct and predictable operating cash flow generation supports our solid investment-grade ratings for the benefit of our customers and investors.

Moving on to the financing plan. Slide 9 offers more specificity on the balance of our planned funding needs in 2023. In short, I'm pleased to report that our financing plan for the year is largely completed. In fact, at the utility, we've completed all of our planned first mortgage bond issuances for the year at a weighted average coupon of approximately 4.8%, which is below our planned estimate. The only remaining opco financing is a securitization funding to address the recovery of the undepreciated rate

base in our recently retired Karn coal facilities. As for the parent company, given the timing of the aforementioned convertible bond issuance, we've been able to delay the settlement of the equity forwards that priced last year.

So the roughly \$440 million of forward equity contracts will be settled in the fourth quarter. As I've said before, our approach to our financing plan is similar to how we run the business. We plan conservatively and capitalize on opportunities as they arise. This approach has been tried and true year in and year out and has enabled us to deliver on our operational and financial objectives, irrespective of the circumstances to the benefit of customers and investors.

And with that, I'll hand it back to Garrick for his final remarks before the Q&A session.

**Garrick J. Rochow**

*President, CEO & Director*

Thank you, Rejji. You hear us say it every year. We deliver. Our track record spans 2 decades of consistently delivering industry-leading results in all conditions for all stakeholders. This year will be no different. With that, Harry, please open the lines for Q&A.



# Question and Answer

## Operator

[Operator Instructions]

Our first question today comes from the line of Jeremy Tonet of JPMorgan.

## Jeremy Bryan Tonet

*JPMorgan Chase & Co, Research Division*

Just wanted to start with the electric rate case, if I could here. Thank you for the color that you provided, but I wonder if we could dig in a little bit more on how recent conversations have been tracking in the case. Could you walk us through the core differences between Staff's recommendation and your proposal? What items should we be looking for? More specifically is settlement possible when tracking mechanisms are disputed? And is a fully litigated case preferable in this area, so there's no kind of gray areas?

## Garrick J. Rochow

*President, CEO & Director*

I feel good about the progress of our electric rate case. And just to give you a little flavor on where we're at with that. In rebuttal, we came back at \$169 million. And as I shared, in my prepared remarks, 10.25% ROE and 51.5% equity ratio. And that reflects just the differences in the business from when we built the case to where we're at now in the forward-looking test year. Staff is at \$88 million. And so the gap is pretty small between our ask and where the staff is, which again I see, is very constructive.

And so we're really at a constructive starting point in the conversation. And much of that delta is made up with -- it's just really the cost of capital, ROE and equity ratio. That's a big piece of the difference. And there's a few other what I call cats and dogs, important cats and dogs nonetheless, but things that we are helpful for our customers. And so that's the big difference.

Now let's talk a little bit about settlement in the context of settlement. And I've certainly been in a number of these calls where I'm open to settlement, and settlement presents itself, that's great. And we're certainly receptive to that. But as you pointed out, there is an important mechanism in there and there's undergirding. Those are 2 key things that we need to see come out of this case.

Investment recovery mechanism to have some certainty on our distribution, electric distribution investments and this underground pilot. This is important to get this started, and there's a real benefit for our customers. And so those are harder to get in settlement, just to be fully transparent. Typically, they're a black box when you go through settlement. And so we're prepared to go the full distance. And I'll just be honest with the entire call, it's likely we're going to go the full distance and I have confidence that we can get a really constructive outcome going to a full order.

## Jeremy Bryan Tonet

*JPMorgan Chase & Co, Research Division*

Got it. That's very helpful there. And maybe pivoting a bit, could you walk us through your longer-term expectations for DIG, particularly as it relates to recontracting here? Could you speak to the longer-term potential for this business and for nonregulated renewables growth in the future as well given the changing landscape?

## Garrick J. Rochow

*President, CEO & Director*

Yes. Our non-utility growth continues to be small in the bigger scheme of things. Our primary business continues to be the utility space. So it's about a 95%-5% mix. And as shared in the prepared remarks, we expect them to be within guidance range. And so that's a good piece. It continues to be contracted renewables. And again, Rejji uses these words, singles and doubles. We're not swinging for the fences here. So just thoughtful, contracted renewables. They have a utility-like return, long-term contracts,

assuming no terminal value, again, really conservative, almost utility-like. And then there's the Dearborn Industrial Generation, or DIG. And we continue to see upward pressure on energy and capacity prices.

And so we're fully contracted out to 2025 with energy and capacity. And so we're filling in '26, '27 and the out years. We plan conservatively, but those bilaterals and the contracts that we are inking are certainly better than expectations. Now don't read into that a sugar high. You've heard me say no sugar highs in the past. So you can anticipate 6% to 8% growth on this, again, expectation toward the high side of that growth. And so we'll continue to reinvest as needed versus the sugar high. So hopefully, that's helpful as we see on North Star.

**Jeremy Bryan Tonet**

*JPMorgan Chase & Co, Research Division*

Got it. Understood. No sugar highs, but certainly helpful towards the upper end of the range there. So thank you for the color.

**Operator**

Our next question today is from the line of Julien Dumoulin-Smith of Bank of America Merrill Lynch.

**Garrick J. Rochow**

*President, CEO & Director*

Congratulations on the announcement there, and good work on your team.

**Julien Patrick Dumoulin-Smith**

*BofA Securities, Research Division*

I appreciate it. Look, just following up on the -- speaking of good work, the distribution plan, right, the \$7 billion that you guys talked about there. Can you elaborate just if you think that, that's really kind of incremental versus your prior plan? It seems like that's probably kind of a net \$1 billion increase over 5 years. Can you talk about, is that incremental? Or as you talk about sugar highs, is that going to like offset capital elsewhere, if you will, to smooth things out? Just curious on how you think about that fitting into the grander plan as you update that more holistically?

**Garrick J. Rochow**

*President, CEO & Director*

I'm really excited about this plan. We've talked about -- we've seen the storms this year, and certainly, we have an opportunity to improve reliability in the here and now and then prepare for the -- an aging system, a system that's seen higher winds and more severe weather in preparing for the future. So the team has really done a nice job of putting a good plan together.

Now when I look out at the 5 years, it's more than an incremental \$1 billion. It's an incremental \$3 billion, right? What's right in the plan right now is \$4 billion in our 5-year plan. Now I want to be really careful and really clear about this. And so when we get to the Q4 call, we're going to grow our capital. You can expect we're going to grow our capital. You can expect with these needs on the distribution system that it's going to be biased or it's going to be more growth in the -- on the electric distribution system.

So that \$4 billion number should grow. That's what I would anticipate and expect. However, I wouldn't just do the simple math of taking \$15.5 [ billion ] and add in \$3 billion to it. And that would get you the wrong answer, the wrong number. It's important that we get commission support. And as we go through the steps, we'll get that in the electric rate case filing, and we'll weave that into that capital plan over time. But it should give you a picture of the strength of our 5-year plan. It is robust. There's plenty of opportunities out there, and that extends even beyond 10 years into a really nice, long capital runway.

**Julien Patrick Dumoulin-Smith**

*BofA Securities, Research Division*

In fact, speaking of context, capacity markets writ large, have attracted a decent amount of tension of late and certainly, some of the inflationary dynamics around them. Can you speak a little bit to the status of

DIG, both your contracting status through the long term and more importantly, how you think about your commercial strategy here with pricing as elevated as it seems to be getting in some of these markets. So just curious on what you guys are seeing and what the opportunity is and how that fits into the plan.

**Garrick J. Rochow**

*President, CEO & Director*

Yes. And similar to my previous answer here on this that Dearborn Industrial Generation, we take a very conservative utility-like approach. And as you know, over time, we've just stacked in contracts for energy and capacity, bilateral contracts to make sure that we are avoiding risk and market volatility. But we certainly see some upward pressure on both energy and capacity prices, as you noted. And so much of the energy and capacity is already -- contracts are already in place through 2025, but we're filling in the gaps at '26, '27 and out years.

We plan conservatively and those contracts are, I would say, exceeding our expectations or exceeding our plan, which is great. And so we'll continue to operate just as we have historically in a really conservative mode and a conservative plan, but you can see we're layering in the future right now and feel good about the opportunities for growth at DIG.

**Julien Patrick Dumoulin-Smith**

*BofA Securities, Research Division*

And then just quickly, if you don't mind the status of the solar projects, just where that stands and the schedule for bringing those into rates. Sorry, just to clarify that. I just wanted to hit that as a last quick one.

**Garrick J. Rochow**

*President, CEO & Director*

We feel good about our renewable build. And in this electric rate case, we pulled up some of the renewable build. But I'll be honest with you, 25 years in this business, been in engineering operations, much of my career. There's projects and contracts that move between years. That's not a big deal. And much of our build this year is in wind. We're going to be COD here end of the year at our Heartland wind farm. We're building another 201 megawatts of wind. And so there's a lot of renewable build that's underway in these years.

And so those projects that were referenced in the electric rate case were some of the ones that early got caught up in some of the [ ops ] and solar complaint-related issues. We've talked about that, that's been hashed through in this industry. I felt good about the projects we have in mid-development right now. We have line of sight into panels. We got good sighting pieces. And so that will play out as part of our IRP build.

The other thing is these projects don't go away. Remember that, these are part of the IRP. And so they'll get constructed here. It's just a matter of timing, and that timing is being refined here. And I think at least one of them is going to go this year anyway, so we're going to see some construction there. And remember, because they're approved in the IRP, they get AFUDC along the way. So there's no earnings impact.

**Operator**

Our next question is from the line of Shahriar Pourreza of Guggenheim.

**Shahriar Pourreza**

*Guggenheim Securities, LLC, Research Division*

As we reflect on your kind of prior guidance for \$350 million of equity starting in '25, does kind of that increased CapEx plan move your equity needs proportionately higher.

**Rejji P. Hayes**

*Executive VP & CFO*

Shar, this is Rejji. Yes, so we're still in the relatively early stages of rolling out our 5-year plan. So we're still calibrating where -- what the financing needs will be. As I've said the estimate that we have in our current 5-year plan where we said up to \$350 million a year of equity starting in 2025. I don't see that number materially changing. Now as the CapEx plan increases, again, we always recalibrate, you may see a slight shift upward, but we have to take a look at all of the puts and takes, the capital investments, the cash flow generation.

And I think at the end of the day, you're not going to see us with any sort of need to do block equity. I still think even without seeing the numbers, we'll be able to dribble out the equity in those outer years. But again, still early days on those calculations.

**Shahriar Pourreza**

*Guggenheim Securities, LLC, Research Division*

Okay. Perfect. And then just from a stakeholder perspective, where is the MPSC going with sort of the investigations into storms at this point? And I guess what's the range of outcomes you guys anticipate and we've seen some comments filed, but there seems to be a negatively skewed mechanism for penalties versus rewards.

**Garrick J. Rochow**

*President, CEO & Director*

So there's 2 pieces. And I wouldn't put a negative take on it. All the conversations we have with staff and commissioners continue to be constructive and frankly, we're both aligned in the same thing. We want to improve reliability. We have a longer-term view of resiliency. And when we're aligned, it makes for constructive conversations. But there's 2 pieces that I'm hearing in your question, Shar. There's one, there's the audit that's underway. That was started in September. Liberty Consulting Group is the one doing the work. They've participated with other utilities, very skilled organization.

Right now, they're in the data collection phase, that's well underway. We expect an interim report about the end of the year and then a full report likely in the September-ish timeframe. It's about a year report then. But I would just be fully transparent with you and honest, I want reliability to improve in the state. I want resiliency and improvement in the state for our customers. And so if they have findings on how we can do work better. My gosh, I'm just going to agree to them. Like we should build that into the next electric grid case. We should do that because we want it better for our customers. And so it doesn't bother me at all. I think this is good that we have an outside party looking and looking at how we can improve.

It's only going to add to our reliability road map. And the other thing is on this performance-based rates or PBR. The work group is underway. It was initiated in the first, second quarter timeframe, April-ish timeframe, I believe. And so that conversation is underway. A straw proposal was put out. We have put comments through that process. We're continuing to participate in work groups.

At the end of the day, I think you're going to have a nice balance of incentives, disincentives from an electric reliability perspective. But the important piece for us is making sure there's a nice line of sight into capital and the capital recovery and there's certainty. That's why we're so focused on this investment recovery mechanism. We also think the same thing is required for storm and some of the O&M expense that occurs in the year. As long as we can navigate all that and get to that point, I feel good, I feel good. This will lead to good outcomes for our customers.

**Operator**

Our next question today is from the line of Andrew Weisel of Scotiabank.

**Andrew Marc Weisel**

*Scotiabank Global Banking and Markets, Research Division*

My first question is about supply chain. I know solar has been in focus. I think you just alluded to that a moment ago, but how about the availability of grid level equipment like transformers or switch gears? And if you do see shortages, is there a risk that might slow down your planned pace of spending?

**Garrick J. Rochow***President, CEO & Director*

Well, first of all, I appreciate your analysis. You did a nice write-up on that. It was about a week ago, 2 weeks ago. So some good work of what's going on in the industry. And so we're highly focused on the supply chain. I'll give it over here to Rejji in a minute. He has responsibility for that area. They've done a lot of good work to be able to secure that line of sight. And so when I think about the projects we have underway, particularly those that are in mid-development.

The team has done a much better job to make sure we have panels, transformers and the like, so we can do that build. Now there's longer lead times, most definitely. And so you've got to be prepared and you've got to be planned in that, but the team has just done a phenomenal job. But Rejji, your team is doing great work, maybe add to it.

**Rejji P. Hayes***Executive VP & CFO*

Yes. Thanks, Garrick. And I appreciate the question, Andrew. So Garrick is exactly right. We have really been attacking challenges in supply chain for the last 18 months or so. And what we've done to really make sure that we've got sufficient supply, not just on the solar side, but really across the business is we've been very focused on diversifying our vendor sources. And so that has been a very concerted effort, again, over the last 12 to 18 months. We've also done what we would describe as value engineering and looking at other alternatives, particularly in the context of transformers that could be compatible with our electric grid.

So we historically used a standard of grain-oriented steel, we're now using amorphous core and introducing that into our system. We've also been very successful in refurbishing damaged transformers and using a variety of third parties to help us with that. And so all of those countermeasures have really led to us getting to a sufficient level of supply across our most highly used transformers.

Now there's still issues in the supply chain across a variety of materials, and we're spending a lot of time on hypercare. But for those highest velocity materials. We feel like we're in really good shape at this point. So I really appreciate the question.

**Garrick J. Rochow***President, CEO & Director*

I just got to note something. Just a Rejji's dexterity, great CFO. And when you can talk about amorphous core, that's really awesome to see.

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

One other question for the team here. Can you give us any updates on the legislative environment in Michigan? I'm talking about the fact that Democrats have full control. So is there any talk of potential updates either a big change to the 2016 law or maybe more likely incremental marginal support for clean energy. Are you hearing any potential around that?

**Garrick J. Rochow***President, CEO & Director*

So I'll start with the big picture. In the governor's first term, she came out with her healthy climate plan. And that was a nice plan, supportive of the plan, very pragmatic and balances clean energy, reliability of supply and affordability. And the governor came out in August and said -- now in her second term and came out and said, "Hey, I want to make a portion of this into law." And that's been in the Senate right now. It started out in committee. And so there are a number of bills that were put together on that as you imagine, in Committee, there's a discussion, and we're actively engaged in that discussion.

And so that's moved on now to the full Senate for consideration, still has not made it to the House. And so there's important work going on to define what that looks like. But I'll just again, stand back and look

at the bigger picture of this, much like 2008, much like 2016, this legislative body as well as the Public Service Commission continues to provide a constructive approach to the future. And we see a constructive out of these bills if they even move forward and if they even get agreement we see a path of constructive regulation going forward and a constructive policy going forward. And so -- but that's currently where it stands.

**Operator**

Our next question today is from the line of Durgesh Chopra of Evercore ISI.

**Durgesh Chopra**

*Evercore ISI Institutional Equities, Research Division*

I had a few questions. You've already answered them. Just -- maybe just on the O&M savings. Obviously, you've done a great job here offsetting weather and storms, it's a big number, like \$0.60, \$0.70 year-to-date combined impact from weather and storms. What -- like is there a way for you to quantify for us what these O&M savings that you're using. That You're offsetting weather and storms with this year. How much of that can be carried forward to 2024 and beyond? I'm just looking for what level of these savings are sustainable? Or are these truly onetime in nature?

**Rejji P. Hayes**

*Executive VP & CFO*

Yes, Durgesh, this is Rejji. I appreciate the question. And I appreciate also the compliments. We are really proud of the work done for the first 3 quarters of the year, offsetting the headwinds we've seen on the weather side, both in terms of mild weather as well as the storm activity and the organization has really rallied around the cause. Obviously, when it comes to cost savings, we never discriminate when it comes to operational versus nonoperational and we've been quite expansive in our approach.

To get to the spirit of your question, I think it's difficult to quantify to what degree the savings will be sustainable. And I do think a decent portion will be because when you think about the separation plan that I mentioned, we reduced our salaried workforce by roughly 10%. We do not assume that we will go and restaff that over the next year or 2 or even next several years. And so we'll see sustainable savings from that, and that will be a significant portion. Some of the other bigger opportunities. So in Q2, the tender financing, obviously, that is a one-timer, and so we wouldn't count on that being sustained. But there are other opportunities we've executed on. We've been really disciplined and rationalizing our contractor base and some of the consultants we're working with, again, we'd like to think we can sustain that.

And as I mentioned in my prepared remarks, we accelerated some longer-term IT projects, and we think we'll see productivity from those actions for some time now. So I'd say it's tough to really ascribe a specific percentage to, but I'd say decent portion should be sustained going into next year and will provide some tailwinds when you think about not just our guidance next year, but also affordability because we always look forward to passing on those savings on the customers.

And the last thing I'll note is, on the financing side, we've seen quite a few efficiencies with the convert where we pulled ahead some costs that we were going to have or some financing needs we had in 2024. That's going to have a sustained level of savings and the operating company financings, we've done those in a really efficient fashion at a weighted average coupon of 4.8% below plan. And so we'll see sustained savings from that. So I'd say -- on the operational and nonoperational side, you've got some one-timers and then some of that will be sustained, but I can't give you a specific percentage at this point.

**Durgesh Chopra**

*Evercore ISI Institutional Equities, Research Division*

And then maybe one just quick clarification on the financing plan, I'm not trying to jump that gun here, but you mentioned you're going to update us on the Q4 call. But for 2024, next year still no equity, that's still accurate, correct?

**Rejji P. Hayes**

*Executive VP & CFO*

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That's exactly right.

**Operator**

And our next question today is from the line of David Arcaro of Morgan Stanley.

**David Keith Arcaro**

*Morgan Stanley, Research Division*

You alluded to this on the last question, but maybe just directly on, as you look into 2024, what's your comfort level, you've pulled a lot of cost levers for this year to the extent there are any incremental challenges into '24. Do you still feel like you're setting up with the same kind of quantum of flexibility around cost structure and the overall expense structure as you look toward hitting your guidance next year?

**Rejji P. Hayes**

*Executive VP & CFO*

Yes, David. Appreciate the question. This is Rejji. So as you think about the glide path to deliver on the guidance we initiated today, we're guiding \$3.06 to \$3.12 in 2023 and then \$3.27 to \$3.33 in 2024. And so that implies somewhere around \$0.20 of pickup year-over-year to get to midpoint to midpoint or thereabouts. And so as I think about it, obviously, the weather we had this year, we're looking at roughly \$0.30 of weather hurt, and that's just the mild weather experience over the first 3 quarters of the year, and we anticipate basically being flat in the fourth quarter. So you have to imagine that because we plan for normal weather, we shouldn't anticipate that \$0.30 of weather impacting us next year.

Now the reality is there have been some one-timers, as I've mentioned, in my prior remarks on the sort of tender financing side. And so we'd have to assume that those don't recur as well. And so when you net the 2 of those out, you get about \$0.10 of pickup. And then if you think about the pending rate case we have. We had a very constructive gas rate case settlement in the third quarter of this year that was approved by the commission. We've got a pending electric rate case, and then we'll file another gas rate case in December this year. And with the anticipation of constructive outcomes on those proceedings that offers about per preliminary estimates, maybe somewhere between \$0.10 to \$0.15 net of investment-related costs of pickup.

And then again, a lot of the cost savings I enumerated earlier, we expect a decent portion of those to be sustained, and so we'll get additional pickup there. And so you can get to a glide path of that \$0.20 per share, again, for that year-over-year growth, relatively easily when you look at those pieces. Now there are always puts and takes. And again, there are some things that will roll off going into 2024. And I think what's highly debatable is will we see the same quantum of service restoration expense going into next year because clearly, we've had a record level of storm activity, as I noted in my prepared remarks.

And so as we think about the glide path, it's going to be a combination of rate relief, net of investment-related costs with our pending proceedings. We'll see the weather roll off. We'll see some of the one-timers roll off. And then we expect some of the savings from a lot of the cost reduction initiatives to provide a tailwind on a net basis next year as well. And so that's what gives us confidence that we can deliver on the 2024 guide. Is that helpful?

**David Keith Arcaro**

*Morgan Stanley, Research Division*

Yes, very helpful. I appreciate all the color. All good points. And let's see was also just going to check on, could you just give the latest update in terms of what you're seeing with the voluntary green pricing program, potential upside from that program and just expectations for how customer additions could trend from here?

**Garrick J. Rochow**

*President, CEO & Director*

Yes, it continues to be very positive. And so remember, we're in, what I'd call, a tranche of 1,000 megawatts that is being contracted out. There's significant demand from our customers for those products. We're well over 400 megawatts of contracted lower that continues to grow. And then that's driving to more build from a renewable perspective. And so we've announced even within the quarter, the intent to build a solar facility in the Karn Weadock coal facility that will help meet some of that -- a portion of that need. So again, very robust continued strong interest from our commercial and industrial customers.

**Operator**

And our next question today is from the line of Nicholas Campanella of Barclays.

**Nicholas Joseph Campanella**

*Barclays Bank PLC, Research Division*

Just one for me. A lot of them have been answered. But I guess, just looking at the resiliency plan, you kind of start to show the SAIDI scores improving '25, '26. But I was just trying to dig in more on how you're thinking about operational risk reduction for '24. Just given lessons learned from last year's storm cycle and I assume you're probably actively deploying some of this technology now. So just how should we kind of think about storm risk '24 versus this year?

**Garrick J. Rochow**

*President, CEO & Director*

Great question. I'm glad you're digging into it. That's a fun plan to look at. Right now -- and that's why I shared in some of my prepared remarks, like we're not waiting. And the commission has been supportive of additional tree removal or vegetation management. That's more than doubled our spend over the last 3 years. So that's active work that's underway. There's close to 300 crews that are on our system, contracted crews that are out doing that work today and have been over the course of the year. And we -- in those areas where we do the work, we see greater than a 60% improvement, well underway.

In addition to that, fusing. 15,000 fuses over the last 2 years and a plan to do more next year as well. That takes -- when there's an interruption on the system, like fuse box in your home. And so rather than the whole home going out, you might lose the bathroom or the kitchen. Same type of thing on the electric. We're fusing that. So when there's an interruption, less customers are impacted. We're seeing SAIDI performance improvement already from the deployment of those fuses. We've never done this level of fusing never across our history.

We continue to add automation. I just saw a great one the other day being able to -- one of the things on our high-voltage distribution system, we've got what's called a Victor insulator. Now Victor insulators are prone to failure. That's a known problem. But once you put them on the grid back in the '70s, we didn't have the best kind of control on where those went. And so to be able to identify them, you got to be able to see the small little V on top of the Victor insulator. Before we'd have to stick a bucket truck up there to see that. That's very inefficient. Now with drones with the ability to automatically pull from a picture to see that little V, we're able to find that -- find those Victor insulators and be very strategic about replacing them.

So I'm excited about the technology we're bringing to bear as well. And so those are just a few examples. There are hundreds of examples like we are not satisfied with our reliability performance. We are going to make it better. We've seen the improvement over 2022. We continue to be on good pace this year even with the storms. And so -- and we're going to keep the -- sorry with the analogy, we're keeping the foot down on the floor on the accelerator on this.

**Operator**

Next question today is from the line of Travis Miller of Morningstar.

**Travis Miller**

*Morningstar Inc., Research Division*



On the distribution plan, I was wondering if you could talk a little bit about what you expect the timing of the regulatory review on that to be?

**Garrick J. Rochow**  
*President, CEO & Director*

It's going to be -- those will get woven into electric rate case filings. And so the plan by itself will get some comments, but that's not a contested filing. What will happen is those -- that will be the -- it's truly a road map. It's truly a vision of where we're headed and the important pieces that have to come together for that. And so those get brought into electric rate case filings and then with commission support, they can be approved. I would just highlight one thing, one announcement we've had here in the last couple of weeks, though, Department of Energy grant of \$100 million. That really jump starts some of this important work. And so again, to the previous question, we're not waiting around. We see some opportunities to put this to work immediately. But again, the regulatory process is through the rate cases.

**Travis Miller**  
*Morningstar Inc., Research Division*

Okay. So that suggests you'd probably continue that annual type run rate of electric rate cases and even potentially gas rate cases, but especially the electric. Is that roughly correct?

**Garrick J. Rochow**  
*President, CEO & Director*

Yes, you should expect an annual rate case type filing, and I would just offer too in these particularly with the interest rates the way they are, 10-month rate cases and forward-looking test years and the kind of the annual strategy really eliminates some of that drag that you get with higher interest rates. And so there's a lot of benefits of that approach.

**Travis Miller**  
*Morningstar Inc., Research Division*

Okay. And then just real quick would the investment recovery mechanism change that timing at all? Or still even if you get that still kind of a 1-year type of rate.

**Garrick J. Rochow**  
*President, CEO & Director*

It will still be a 1-year approach. The IRM is not big enough at this point. It's a starting spot. And over time, we'd look to enhance that. The first step is to get it in place, which is part of this current electric rate case.

**Operator**

Our next question today is from the line of Sophie Karp with Key Corp.

**Sophie Ksenia Karp**  
*KeyBanc Capital Markets Inc., Research Division*

A lot of questions have been answered, but I wanted to ask you about the cost of capital and like the ROEs, right? So a bit of a push-pull in Michigan as in many other states right now. I'm just kind of curious how the conversations about the need for higher ROE are landing with the stakeholders at the commission. Like I'm not sure if people are catching on to how fast the rates have risen and that really needs to -- you're going to have some adjustment to how they are reviewed, I guess, in the last few years. So any color on that would be helpful.

**Rejji P. Hayes**  
*Executive VP & CFO*

Sophie, it's Rejji. I appreciate the question. Let me just start by saying we're certainly making the case and have made the case really for the last few years around the need to have higher ROEs just given the

changing cost of capital environment. I think treasuries are probably a couple of hundred basis points higher than where they were when we first had 9.9% established as the prevailing ROE across our electric and gas businesses and DTE is at parity as well. And so we're certainly making the case. And I think the case becomes stronger and stronger every day as we see continued hawkish monetary policy. So I think if -- to give you any confidence, I think it's -- we feel very good about the fact that there's a good floor at the 9.9% prevailing ROE, but we're going to continue to make the case that it should be higher.

As Garrick noted, we're seeking 10.25% in our pending electric case. And again, I think the data support that point of view. And we try to make the case in addition to all the different ways in which you can calculate the cost of equity, the fact is that we compete for capital against other utilities and other jurisdictions. And given the quantum of capital that we have, not just in our current 5-year plan, but in what we anticipate being our next and subsequent 5-year plan, we do think we need to be as competitive as possible on all fronts because you can take your dollars elsewhere as investors. And so we've been making the case loudly and clearly, I think DTE has as well, and hopefully, we can start to see a change in the wind here with respect to ROEs.

**Sophie Ksenia Karp**

*KeyBanc Capital Markets Inc., Research Division*

Got it. And then maybe if I can squeeze one more in. You've been doing your underground in pilots. And I'm just curious, what have you learned so far from this pilot project maybe in terms of cost or approach that needs to be taken. Curious if you can provide any color on how that is going.

**Garrick J. Rochow**

*President, CEO & Director*

Well, just a point of clarification, what's introduced in the electric case is a pilot, a pilot of 10 miles. And as I shared, small but important so that the Public Service Commission has the opportunity to evaluate -- now we do do undergrounding already. We do it in the context of subdivisions and the like, and we have done a couple of trial runs. And what we've seen is very cost effective because of our gas business directional drilling underground is one of our specialties. We certainly have the equipment and the expertise to do that. And so we're able to be very competitive from an undergrounding perspective.

Now our plan stays out of congested areas, stays out of 3-phase construction. And so we're talking single phase, more rural construction where you have the right soil conditions, and we do over much of Michigan, which helps from a cost perspective. And so we've shared historically -- not historically more current, I guess, and the \$350,000 a mile is, we think, very achievable.

**Operator**

Our next question today is from the line of Anthony Crowdell of Mizuho.

**Anthony Christopher Crowdell**

*Mizuho Securities USA LLC, Research Division*

All my questions have been answered.

**Operator**

Our next question is from the line of Ross Fowler of UBS.

**Ross A. Fowler**

*UBS Investment Bank, Research Division*

Let's take it to the full hour, why not. And again, throw out as many auto -- auto analogies as you'd like in the answer to this question. But I just wanted to get an update on the estimated bills meter installation issue, given the commission filed that show cause a couple of days ago. So I know Rejji kind of talked about this back when I saw you in August, but just an update there. And then the second part of the question is, do you think that has any sort of lateral impacts on the rate case proceeding? Or from your perspective, is the commission really looking at these as 2 separate filings and issues?

**Garrick J. Rochow**

*President, CEO & Director*

So I don't know if I have any auto analogies for this one. We talked about this in great detail, and I provide probably a long answer, maybe too long an answer on the Q2 call. So I'll try to be brief, but this is just the next step in that. And so what I shared back, again, briefly what I shared in Q2 was recall that we had some 3G meters that were no longer supported. Our vendor could not meet some of the supply chain needs, again, considered a carryover from the pandemic and did not meet some of the required reads out in the field.

And so that creates some billing issues for our customers. That's a problem. And the Public Service Commission clearly identified that. And so we shared in our Q2 call that, that issue is behind us. We filed a report in August, and this is the next step to reach resolution. And so I don't -- it's an important step. It gets us to the final end of this with the commission. I don't see any spillover impact into the electric rate case or in any other filings.

**Operator**

And we have no further questions in the queue today. So I'd like to hand back to Mr. Garrick Rochow for any final remarks.

**Garrick J. Rochow**

*President, CEO & Director*

Thanks, Harry, and I'd like to thank you for joining us today. We'll see you at EEI. Please take care and stay safe.

**Operator**

This concludes today's conference. We thank everyone for your participation.

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