24-Oct-2019

CMS Energy Corp. (CMS)

Q3 2019 Earnings Call

CORPORATE PARTICIPANTS

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

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

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

OTHER PARTICIPANTS

Andrew Weisel
Analyst, Scotia Howard Weil

Constantine Lednev
Analyst, Guggenheim Securities LLC

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Greg Gordon
Analyst, Evercore Group LLC

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Travis Miller
Analyst, Morningstar, Inc. (Research)

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy 2019 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 a reminder, there will be a rebroadcast of this conference call today beginning at 12:00 PM Eastern Time running through October 31. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

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

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

Thanks, Rocco. Good morning, everyone, and thank you for joining us today. With me are Patti Poppe, President and Chief Executive Officer; and Rejji Hayes, Executive Vice President and Chief Financial Officer. This presentation contains forward-looking statements which are subject to risks and uncertainties. Please refer to our SEC filings for more information regarding the 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 Patti.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

Thank you, Sri, and thank you, everyone, for joining us on our third quarter earnings call. This morning I'll share our financial results and outlook for the first nine months of the year; I'll introduce our 2020 guidance, and review our new 10-year capital plan.

Rejji will add more details on our financial results and of course as always, we'll close with Q&A. Through the first nine months of the year, we reported adjusted earnings of $1.81 per share. This keeps us on track to meet our year-end guidance of $2.47 to $2.51 per share with a bias to the midpoint. We'll continue to manage the work and adapt to changing conditions in the final quarter of this year as we do every year to deliver the results you expect. We're also introducing our 2020 guidance of $2.63 to $2.68, which is up 6% to 8% from the midpoint of this year's guidance range. As always, we'll update this initial guidance on our year-end call from our 2019 actual results. We continue to reiterate our long-term adjusted EPS and dividend growth of 6% to 8%.

I'm excited to introduce our new $25 billion 10-year capital plan. We've also revised our five-year plan, which reflects our forecasted capital investments from 2019 to 2023 to include the addition of approximately $600 million of solar investments over this period as approved in our IRP. This new 10-year plan is the result of a lot of hard work from our teams to come up with the real operating plans that we can execute, including identifying the investments that will drive the highest value for our customers in both safety and reliability as well as costs.

We've identified not only the system needs, but the pacing of the needed engineering, the equipment and the personnel to deliver a system that can meet the energy needs of our customers. There is no question that our electric and gas systems need upgrades well beyond normal maintenance, including accelerated electric reliability investments and enhanced infrastructure replacements for gas. Even though we're planning to invest $25 billion, we know there are more investment opportunities. We continue to plan conservatively based on customer affordability, the level of workforce we'll need to complete the work and balance sheet constraints.

As we execute our plan, we'll look to incorporate more of these opportunities over time. To the extent cost management allows, you could see some of that upside rolling into the plan and that $25 billion looking something more like $28 billion to $29 billion of total capital investments.

That is what you see on the right side of this slide. These items are additive to the plan depending on future rate case approvals. Our new 10-year capital plan will help us deliver safe and reliable energy to our customers for years to come, and it couldn't be done without the capital that you all provide.

This plan supports our long-term growth objectives and reflects our commitment to deliver for our customers and our investors. 2019 has been a productive and successful year on the regulatory front. The gas rate order demonstrates a high level of alignment with our commission on the amount of investment required to keep our system safe and reliable.

We received over 98% of our requests, which resulted in $6.4 billion of rate base. We plan to file our next gas rate case by the end of this year and our electric rate case in the early part of next year. We'll expect an order in both cases 10 months following those filings, as is required by the 2016 Energy Law.

And now my favorite slide, The Story of the Month. Our triple bottom line is being noticed by our customers and the communities we serve. There's nothing more gratifying than having our customers recognize our efforts by awarding us the #1 J.D. Power Ranking for residential gas in the Midwest.

Our increased investment in the safety and reliability of our gas system, the rollout of our automated gas meter reading to improve the accuracy of our bills and our application of the CE Way to dramatically improve our first-time quality and on-time delivery of customer-requested service have all contributed to our movement from the fourth quartile to Number 1 in 2019. It's also worth noting that we have managed to reduce our residential gas bills by over 30% in the last five years, while making these insignificant (sic) [significant] (00:58) investments.

I was in Battle Creek last week at the Sunrise Rotary Club Meeting and over a scrambled eggs and a cup of coffee, I had a chance to chat with leaders of the Michigan Home Builders Association. They shared with me that they are experiencing the progress our team has made in meeting increasing demand for new services. I'm embarrassed to admit that there was a time just a couple years ago when we didn't even measure on-time delivery. And when we started, we were only on-time 9% of the time. Now, we are up to 95% on-time for our three-hour windows. That's not lucky. That's hard work and the application of our CE Way to improve performance that much.

The homebuilders told me that our timing could not have been better with continuously rising new home starts. We are feeling Michigan's prosperity with our delivery of hometown service. It was heart-warming to hear from such an important organization that they noticed and were thankful for our improvements. We've come a long way and yet, so far left to go. Though we are proud to be on the top of the Midwest ranking for our gas customers, we are still dissatisfied. We know our customers expect great service, and we'll do our part to continually improve their experience.

In addition to our focus on people, we're equally committed to the second leg of our triple bottom line, the planet. To that end, we are proud to announce today that we've established a voluntary net zero methane emissions goal by 2030 for our gas distribution system. To achieve our goal, we'll continue to accelerate the replacement programs we already have in place, protect our assets with increased damage prevention and apply new technologies to identify and eliminate fugitive methane emissions. With these efforts, we can get an 80% methane reduction. And to get to net zero by 2030, we're planning to use renewable natural gas as part of our total gas supply.

When we make capital investments in our system, we fully demonstrate our triple bottom line. We serve people, our planet and profit. It is the best long-term business philosophy to fulfill our purpose; world-class performance, delivering hometown service.

This triple bottom line has served our model well and allows us to perform consistently. Regardless of weather conditions, the economy or other external factors, our track record demonstrates our ability to deliver consistent premium results year-after-year-after-year and this year, you can expect the same.

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

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

Thank you, Patti, and good morning, everyone. As posted earlier this morning, we reported third quarter net income of $207 million, which translates to $0.73 per share. Our results for the quarter compare favorably to the third quarter of 2018 by $0.14, and as Patti highlighted, keep us on track to meet our financial objectives for the year.

On a year-to-date basis, we have delivered $514 million of adjusted net income or $1.81 per share. We're just $0.12 per share lower than our financial results over the same period in 2018. This was largely driven by the absence of the favorable weather we experienced in 2018 and the substantial storm activity we experienced throughout the year.

As we've been highlighting all year, we planned for back-end loaded 2019, given the timing of our gas rate case and last year's cost pull-aheads, among other factors. And we remain on track with our plan to achieve our full-year EPS guidance. As always, we'll continue to plan conservatively and manage the work to meet our operational and financial objectives as we have done every year for the past several years.

On slide 10, you could see that most of the negative variance year-over-year has come from last year's favorable weather rolling off and higher service restoration costs incurred in 2019, attributable to storms. These headwinds have been partially offset by rate relief net of investments, favorable sales mix and strong cost performance achieved through ongoing and planned initiatives such as attrition management, improved productivity via the CE Way and supply chain optimization, to name a few.

These anticipated cost control measures have also been supplemented with opportunities which we have flexed during the year such as the deferral of discretionary projects, strong tax planning, timely refinancings and opportunistic asset sales. As always, we adapt to the changing circumstances required and make sure we have adequate levels of risk mitigation in our plan to meet our financial objectives year in and year out. As you will note, our catch-all bar in the middle of the page labeled Usage, Enterprises, Taxes & Other highlights $0.02 per share of favorable variance versus the comparable period in 2018.

During our second quarter call, this bar showed $0.15 per share of negative variance, and that $0.17 swing has largely been driven by the aforementioned factors, which exemplifies our strength in managing the business as we match unexpected and, at times, uncontrollable headwinds with positive offsets.

As we look to the fourth quarter, much of the tailwinds we anticipated in the second half of the year have come to fruition. So we remain confident in our ability to meet our EPS guidance for the year. Our Q4 glide path assumes that the absence of favorable weather in 2018 will be more than offset by the substantial reinvestments or pull-aheads we made in Q4 of 2018, which equates to $0.15 of net positive variance in 2019.

We also anticipate an additional $0.13 of rate relief-driven favorability with our gas rate case now in the rear-view mirror and some modest growth from our non-utility businesses. That said, we'll take none of this for granted and will approach these last two months of the year with the usual degree of paranoia, by continuing to maintain our cost discipline and flex additional opportunities as needed to deliver the consistent financial results you've come to expect.

Slide 11 is a great reminder of how we manage the work and capitalize on flex opportunities during the year to deliver for our customers and investors. We've been able to maintain this consistency by being agile and constantly scrubbing our plans for risks and opportunities. In years where we have had favorability, we prioritize reinvestment opportunities, and in a year such as this, where we've seen sub-optimal weather and higher storm costs, we lean on our ability to manage the work and identify and execute on risk mitigation opportunities intra-year.

At times, these opportunities can be episodic like some of the savings we've achieved in the past on benefits and tax-related items, and this year is really no different. We've been using this slide now for the past several years because it epitomizes what we do here at CMS.

We anticipate the volatility which is represented by the curvy blue line and manage that volatility every year to ensure that you, our investors, continue to experience the consistent, industry-leading financial performance illustrated by the upward-sloping linear green line that has been our trademark for over a decade now.

In short, we do the worrying; so you don't have to. This is all made possible by our self-funding strategy depicted on slide 12. Our focus on cost controls and proactive risk management to fund our capital investments and mitigate intra-year volatility underpin our simple, but unique business model and enables us to meet our financial objectives every year.

With a robust backlog of capital investments, we can improve the safety and reliability of our electric and gas systems for our customers, while driving earnings growth for our investors. And this growth is largely funded through cost cutting, tax planning, economic development and modest non-utility contribution, all efforts which we deem sustainable in the long run.

As such, we are confident that we can continue to improve customer experience through capital investments, while meeting our affordability and environmental targets for many years to come.

As we plan for the future, one of the primary constraints of our long-term capital investment plan will be customer affordability and we have taken this into account in the formulation of our new 10-year capital plan. As we've highlighted in the past, we have substantial cost reduction opportunities throughout our $5 billion-plus cost structure through the expiration of high-priced power purchase agreements, the gradual retirement of our coal fleet, capital-enabled savings as we modernize our electric and gas distribution systems and lastly the CE Way, which will serve as the key pillar of our cost reduction strategy over time as we eliminate waste throughout the organization. These efforts will provide a sustainable funding strategy for our 5- and 10-year capital plans, which will keep customer bills low on an absolute basis and relative to other household staples in Michigan, as depicted in the chart on the right-hand side of slide 13.

But we don't limit our efforts to cost reduction initiatives. Economic development, which is another key element of our self-funding strategy, has proven to be quite fruitful in our service territory, largely due to the active nature of our plan. Over the past three years, we have seen substantial increases in new load commitments in our electric service territory, cresting in 2018 with over 100 megawatts achieved as indicated in the bar chart on slide 14. This year, we're targeting another 100 megawatts and are on track to meet this objective.

It is also worth noting that our electric service territory is supported by a diverse customer mix as shown on the right-hand side of the slide. And you'll note that the auto industry represents about 2% of our customer rate mix, which we use as a proxy for margin. Although the strike at GM is top of mind, it's worth reminding you that we're not overly exposed to auto manufacturers or their suppliers in our electric service territory. However, we are watching closely for any spill-over effects that can impact our residential and commercial customers. At the moment, we're not seeing any notable pullback in key economic indicators. In fact, unemployment in Grand Rapids, the heart of our electric service territory, remains well below the national average and we continue to see robust new construction activity in Western Michigan. We feel the diversity of our service territory is key to minimizing some of the earnings and operating cash flow often associated with weakening economic conditions.

Slide 15 highlights the impact of such sensitivities, among others, on an annual basis, which have mostly been mitigated in 2019, given our recent gas order, the accelerated execution of our financing plan and the aforementioned risk mitigation activities, which have reduced the probability of large variances in our plan.

Rest assured, we'll continue to monitor these sensitivities as we come down the stretch in 2019, and we'll manage the risks accordingly as we do year-in and year-out.

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

Patricia K. Poppe

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

Thanks, Rejji. Our investment thesis is compelling and will serve our customers, our planet and our investors for years to come. And with that, Rocco, please open the lines for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you very much, Patti. The question-and-answer session will be conducted electronically. [Operator Instructions] Our first question today comes from Andrew Weisel of Scotia Howard Weil. Please go ahead.

Andrew Weisel
Analyst, Scotia Howard Weil
Q

Hey, good morning, everybody.

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

Good morning, Andrew.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Good morning, Andrew.

Andrew Weisel
Analyst, Scotia Howard Weil
Q

My first question is you talked about the future long-term annual growth of 6% to 8%, obviously nothing new there. But is that meant to be apples-to-apples with the 10-year CapEx plan? In other words, does that mean to go through 2028?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

We don't give 10-year guidance. We do that on an annual basis and give you a good window looking forward in the nearer term. But the 10-year capital plan certainly supports directionally 6% to 8%. And so that's really part of what we're trying to share today that we've got not just kind of a holding number, but an actual plan for capital investments across the system that should lead to our continued performance.

Andrew Weisel
Analyst, Scotia Howard Weil
Q

Okay. Got it. Next question is, in the list of potential sources of upside on page 5, you don't include renewables there. Is that more a function of demand forecast and not seeing a need or is it related to customer bills and affordability or is there some other factor there?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Well, it's in the base plan; so we know based on our IRP what our 20-year renewable strategy is. We know that we'll own half and purchase half of the new solar, 6,000 megawatts total in the 20 years, 5,000 megawatts in the 10 years; so that's built into the base plan.

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

And Andrew, it's also worth reminding that as we've said in our IRP filing, it's going to be about 6 gigawatts per our estimate of solar over the next sort of decade plus and we'll own half of that. And so that $4 billion you're seeing attributable to renewables over the 10-year period is a combination of the wind investments we're making for the RPS as well as the assumption of owning about half of that solar investment opportunity over the next several years.

Andrew Weisel
Analyst, Scotia Howard Weil
Q

Makes sense. And one last one, this is going to be a little bit of a curveball question. I noticed you posted a slide deck called Retail Outreach a few weeks ago. Can you please talk about what drove that and maybe what you're trying to accomplish? And then round numbers, what percent of your stock is currently held by retail investors?

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

Oh, yes. So, that was part of an effort that we did with one of your competitors, Andrew, in the interest of full disclosure. But in essence, our retail holdings are quite small relative to other utilities. So, I would say we're about 90/10 versus about 70 to 30 for the sector, institutional versus retail. And the large reason why that is, is as you may recall, quite some time ago, we suspended our dividend as we were clawing back from sins of the past. And so, that really turned over our ownership to skew much more heavily towards the institutional side. And so over time, as the fundamentals of the business have improved, we started to increase our exposure to retail investors and will look to do that more going forward.

Andrew Weisel
Analyst, Scotia Howard Weil
Q

Very good. Thank you.

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

Thank you.

Operator: And our next question today comes from Shar Pourreza of Guggenheim Securities. Please go ahead.

Constantine Lednev
Analyst, Guggenheim Securities LLC
Q

Hi. Good morning, guys. It's actually Constantine here for Shar.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Hey, Constantine.

Constantine Lednev
Analyst, Guggenheim Securities LLC
Q

Hi. Good morning. Congratulations on a great quarter and beating all the estimates. So, one quick question on the legislature. There is a set of bills powering Michigan forward that was introduced and that's kind of looking at redoing, I guess, some of the things that were outlined in 2016. Just wanted to get your insight on kind of how does that impact your current IRP and potentially kind of any future IRP planning processes?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Well, so there's a couple of good things to know that number one, our Energy Law that we did pass in 2016 was solid. And it created the framework that led to the IRP. The IRP gives three-year forward look for approvals. So, we have a three-year approval on the elements of the Integrated Resource Plan and our renewable plans in particular and it was so well received that we think some of these smaller proposals that are part of that package really aren't necessary because we've created this framework for competitive bidding for solar.

I think some of the proposals that are on the table are trying to do an end around and they're not getting much traction. So the good news is the Energy Law had wide bipartisan support. Our Integrated Resource Plan had a wide spectrum of supporters from the Sierra Club to our largest business customers. So, there's pretty good alignment with the committee leadership in the House and the Senate that we've done our work on the legislation on renewables and the Energy Law that was completed in 2016.

Constantine Lednev
Analyst, Guggenheim Securities LLC

Q

Perfect. That definitely helps us out. One kind of small housekeeping item. You started presenting kind of the upside capital case with this presentation. Just curious how does that contemplate the long-term kind of equity needs for the business? You mentioned the $150 million per year. Does some of these opportunities kind of give a little bit of variability to the $150 million number?

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

A

So what I would suggest, Constantine, is that we always provide our estimate for equity needs on a rolling annual basis with the update of our five-year plan in Q1 of every year. And so, we'll provide any revised thinking around that, at least, over a five-year period in Q1 of next year. But I think there are a lot of variables that go into that math and that's why it's difficult for us to give you sort of a direct number at this moment. So think about the timing of when we'll be a federal taxpayer. That's a big variable. Obviously, regulatory outcomes over time, that will dictate the cost of capital, run rate.

CapEx, etcetera, and then customer bill affordability and where that is relative to inflation. And so all of those variables will impact our needs from an equity issuance perspective, but I can say directionally my sense is, it'll probably be up a little bit, but we'll see as we continue to flesh out our operating plan – our financial plan over the next several years.

Constantine Lednev
Analyst, Guggenheim Securities LLC

Q

Okay. That makes sense. Thanks. I'll jump back in queue.

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

A

Thanks.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Constantine.

Operator: And our next question today comes from Michael Weinstein of Credit Suisse. Please go ahead.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, guys. Hey, just a follow up on that last...

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hey, good morning.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

...good morning. Good morning. Just following up on the last question. Just noticing on the cash flow slide 23 that your NOLs are increasing over the five-year period and cash flow is up. Is that because – are the NOLs, are those increasing or the credit's increasing because of the, I guess, higher number of or higher amount of renewables in the system, is that what's driving that?

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

A

Hey, Michael, it's more of the latter; so we don't see a real increase in the NOLs and in fact they were – the NOLs themselves are remeasured upon tax reform going into effect when the bill was enacted in late 2017. But we do see some accretion in the credits that we have because of the renewable investments we've been making, both for the RPS and over time, we may see a little bit more increase in credits as well as we take on solar investments. So, it has more to do with the renewable efforts than any accretion in NOLs.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

And does that accrue to the benefit more as a customer or, I mean, does this offset equity needs going forward? Just curious.

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

A

I would say based on what's in the page, it's more of the latter. It offsets equity needs. But keep in mind just based on the way in which we've structured the RFPs for the solar investments, we'll actually see, because we're doing building (sic) [build-own] (25:20) transfers as well as competitively bid out PPAs for the 6 gigawatts over time, we'll see the benefits of tax credits incorporated into the cost we have to pay for the investments as well as the contracts we'll take on and that will directly benefit customers. So you'll see a benefit for both sort of cash flow, capital raising needs as well as customer benefits.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Great. Thank you.

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

A

Thank you.

Operator: And our next question today comes from Greg Gordon of Evercore ISI. Please go ahead.

Greg Gordon
Analyst, Evercore Group LLC

Q

Hey, thanks. Good morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning, Greg.

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

A

Good morning, Greg.

Greg Gordon
Analyst, Evercore Group LLC

Q

So the – if my memory serves me correctly, the Integrated Resource Plan and the $25 billion in capital, there's no capital in there for any additional fossil fuel generation, correct?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Correct.

Greg Gordon
Analyst, Evercore Group LLC

Q

So on the margin, all your investment in power generation will be renewables? And as I also recall, I think I asked you this on the last quarterly call, battery storage is not a significant portion of that because you have such a big position in Ludington?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. Couple things. In the future plans, we will obviously be maintaining our current fossil plants. We'll still have gas plants – our two gas plants will still be on the system up through 2040. They will have ongoing capital maintenance plans. Campbell 3 will be in operation till 2039 and that has obvious ongoing capital plans. So there is capital associated with fossil, just no new fossil generation plants as we described.

The other point on battery storage, Greg, I think it's really interesting – our first IRP that we filed had 450 megawatts of storage in the latter part of the plan. But as we're preparing to file again, as we'll re-file our IRP every three to five years, we're filing again here – in 2021, we'll file another IRP. We're seeing that storage prices are dropping enough that we'll probably see more storage in the mix in our next IRP, which I think is exciting.

When you combine the amount of solar and wind that we'll have on our system, it's going to be very beneficial to have cost-effective solar, both from a – people talk about storage as a means of dispatching those renewables. But think about all those distributed solar panels. They're going to need voltage control. And so we're going to need storage associated with those, just specifically for grid stability and reliability, not just for dispatchability. So, I do see that more and more storage will be part of our plan, especially as prices drop. And that's all captured that – those additional storage dollars will be captured in the electric ops portion of the CapEx plan.

Greg Gordon
Analyst, Evercore Group LLC

Q

Fantastic. When you look at the amount of money that you plan on spending in the gas utility, when you think about the migration away from fossil fuels, I mean, are we seeing – it's sort of – there's some dissonance a little bit, right? I mean, you're seeing cities like Los Angeles and other cities out in California start to move to actually try to eliminate incremental use of natural gas for any type of infrastructure. So, as you look at your 10-year plan and you talk to the policymakers in Michigan, are you were – is there a potential for a similar trend in gas infrastructure over time?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Well, I would say this: Natural gas has been a big part of Michigan's heating seasons. I think these – a lot of the cities that you're seeing with moratoriums on natural gas don't have natural gas penetration for home heating and water heating, like Michigan does. And so, given that, when we're looking at the cost comparison for electrifying all the home heating needs, the cost to customers would be significant. And so given that cost impact, we don't think there's going to be a big market push or demand from customers to make that switch to electrification.

So in our gas planning, we assume that we have modest assumptions about growth. We have more assumptions just about replacing like-for-like systems, making sure our systems are safe, making sure that that aging infrastructure can deliver the volume of natural gas that we move today on the coldest winter day. So that's really how we see the role of natural gas.

I will also say though that to your point about the pressure from environmental community in general on gas, it is in what's in the spirit of our methane net-zero plan for 2030 and why we were excited to announce that today. We can see the use of RNG in the natural gas system to minimize the kind of emissions and help to mitigate the environmental pressures. Our triple bottom line doesn't just apply to the electric side of the business; it applies to the gas part of the business too.

Greg Gordon
Analyst, Evercore Group LLC

Q

Thanks, Patti. Have a great day.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yes. Thanks, Greg. Yes. See you at EEI.

Operator: And our next question today comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch. Please go ahead.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Hey, good morning to you.

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

Morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Hey, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

Hey. Howdy. So perhaps just to go back, if I can rehash a little bit of the 5- versus 10-year update here. Seems like the five-year piece is pretty transparent with the renewable piece. The three quarters is equal to the $600 million in the IRP. And just not to be pedantic about it, but seems like it's the same. And then separately, could you give us a little bit more about the $25 billion to the $29 billion delta that you talk about in the upside opportunities. What would drive those if that might be the best way to ask it?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yeah. So first, on your first question, Julien.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch
Q

What are those?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yeah. The five-year plan is exactly as you've described. The incremental capital is for the renewables associated with the IRP, which we had indicated we would add when we had approval. And then in the 10-year plan, those upsides, we've said it over and over again, there's so much work to be done on this system.

We are trying to make sure that all factors are considered before we build out that capital plan and that's what – I mean, I think some people, you could argue it's easy to throw a number out on a 10-year capital plan. I want you to understand that our capital plan that we are presenting today is a real plan. We actually have a 10-year gas plan drawn up that shows the needs for the system and what year we would do what.

And so the basis for this capital plan in fact is affected by our ability to complete the work, our balance sheet capacity and customer affordability. That 10-year plan, the $25 billion as described affects customers' bills by about 2.2% – per year. We're going to be looking for additional improvements. And when we find additional headroom that can fund additional capital, that's what will be the trigger to add these additional capital investments. But all three of those factors matter a lot and so we're always optimizing around them.

Does that help? Is that what you're asking?

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Yeah, or maybe if I can push a little bit further. The – I suppose the electric reliability or gas distribution, is that triggered by – maybe to go back to Greg's question a little bit more, is that triggered by customer side of the equation or is it just generally, again, the ability to have a customer headroom to continue to push forward on just broadly upgrading the company...

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

I'd say headroom is our biggest constraint, customer affordability, of course balance sheet and the ability to fund that plan is important to us too. We – look, the needs of the system far exceed our customers' ability to pay. And so we are constantly looking for ways that we can do more for less. So, we apply the CE Way to our capital work as well as our O&M work and try and get – lower our unit costs, so more volume of work can be done. We're also looking obviously at workforce constraints and making sure that we've got adequate people plans to do all this work. So, there's a variety of factors that that mitigate adding in the additional capital, but trust me, the needs of the system demand those dollars, and so we're constantly working for ways to get those included in the plan. Fortunately, we have some time with a 10-year window to get that done.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Yes, indeed. All righty. Good luck. See you soon.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Julien.

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

A

See you.

Operator: And our next question today comes from Stephen Byrd of Morgan Stanley. Please go ahead.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning and congrats on the J.D. Power results.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks, Stephen.

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

Thanks, Stephen.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

Most of my questions have been addressed. I just wanted to go back to the upside opportunities that you played out on slide 5. In terms of just regulatory construct or other dynamics, I just want to make sure I'm not missing anything incremental or sort of different that you would need from a regulatory perspective. In your remarks, Patti, you mentioned it's really just dependent on rate case approvals. But was there anything else in terms of – from a regulatory, your design point of view from a regulatory point of view that you would need to achieve?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

No. I mean, I think we have to remain aligned with our commission and the staff. They have a job to do. Their job is to make sure that we are prudently investing in the system to provide the service that customers expect. Now, hopefully, it helps them do their job when we are – when our customers are satisfied with our performance, as indicated in the J.D. Power results. We've got the lowest complaints to the Public Service Commission ever, as a result of many of the improvements we made on the system. We try and make it easy for the Commission to say yes, but they really – they are an important check and balance in the process to make sure that the dollars that we are investing in the system are invested prudently and that they are in the best interest of customers. And I think in our most recent gas case, we got a good indicator from the Commission that they agree with our plan. They agree with the amount of infrastructure that we're putting on the system and they agree the importance of keeping, certainly, our gas system safe and reliable and our electric system to be modernized and reducing our carbon emissions and increasing the reliability for customers every day.

So it is a partnership with the Commission to make sure that we're doing everything we can do in these capital investments and so that takes annual rate proceedings as we file and we get routine feedback from the Commission about our plans.

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

So Stephen, the only thing I would add is that needless to say, we plan conservatively and so we presuppose the existing rate construct. But needless to say, if we could get more traction on trackers, investment recovery mechanisms and vehicles like that, it could certainly increase the likelihood that we could take on more of these upside opportunities. So clearly, we'll continue that dialogue with the Commission and staff over time.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC
Q

That all makes sense. And then just shifting over to renewables. We discussed the IRP and just generally your plan. I wanted to just drill in a little bit more on regulatory approval to rate base half of the investments. Could you just remind us sort of where we stand from a regulatory approval process in terms of just solidifying that capability over many years to come?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yes. So again, the IRP has a three-year forward-looking formal approval, but the settlement that we had signed with all those parties that the Commission approved, really gave a good indication of the construct for making determinations for new additional capacity, specifically renewables. So the 50/50 ownership construct was agreed to by a wide group of parties, which to me gives indication that that will likely continue over time. However, as we file each IRP, obviously, there will be discussion about extending that framework.

What our fundamental belief is that having competitively bid solar on a annual RFP, we set the lowest cost possible for our customers for new renewables. That creates, in some cases, where the ownership lies with someone else and we earn our financial compensation mechanism on top of that PPA, we still then create headroom for investments in the distribution system, which I believe in the long run is where our greatest demand for capital is going to be.

Modernizing our electric distribution system is going to be the cause of the next decade, both just replacing poles and conductor to new resiliency standards, but also modernizing and making that grid so much smarter to handle distributed resources and demand management tools. So I would suggest that the construct is in place; so will be re-reviewed, obviously, every time we do a new IRP filing.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

That makes sense. Thanks so much.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yes. You're welcome. Thanks, Stephen. See you soon.

Operator: And our next question today comes from Travis Miller of Morningstar. Please go ahead.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Good morning. Thank you.

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

A

Good morning, Travis.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning, Travis.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

I was wondering just real quick on that 2020 EPS. Looks like you've got a lot of the regulatory uncertainty locked in or at least not there anymore for the year. What are some of the sensitivities there? Is it weather and O&M typical like that or is there something else in there regulatory-wise?

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

A

Yeah. I would say it's a fairly straightforward glide path for 2020 EPS, Travis. And I think you highlighted the key driver which will be rate relief, net of investments. And so if you think about the gas rate order we just received, about two-thirds of that will flow into 2020.

And so if you just think about the math to that, there's about $100 million of revenue increase that flows into 2020 and you tax-effect that and sort of weave into it all the puts and takes on investment-related costs, you end up with about a net $0.14 or so and that basically gets you right to the low end of guidance for next year and so then you add some of the other puts and takes, we always assume normal weather and there will be variability, we can count on that. Good or bad and so we'll see where we end up. But I think that, coupled with the usual contribution from the non-utility businesses, should lead us to get to our 2020 EPS guidance range without a lot of, I'll say, additional items that are unforeseen.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. Yeah. And then question on that slide 20 where you have the five-year CapEx plan. That new renewables line, that's just incremental, right? So there's still some renewables in the electric utility spending. Is that the correct way to read that?

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

A

No. So, that line item, new renewables, that's a combination of the renewables spend to get to the 15% RPS by 2021. So you've got the wind investments in there and then it starts to take on in the latter portion of that five-year period, some of the solar-related investments of the IRP. So that is all the – that is all the renewable-related spend at the utility in that line item there. Just over this five-year period from 2019 to 2023.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Okay. And that's stuff you would own, right, in rate base?

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

A

Correct.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Okay. And then just real quick on the solar that you guys are talking about, 6 gigawatts to 8 gigawatts and potential for growth there. What's your kind of split there between utility scale and distributed generation? Is that all utility scale or how do you see that potential evolving between distributed generation or rooftop solar and utility scale?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. We think the economics of utility scale are in the best interest of all customers. Now, we do have residential programs that are run by the utility. They're like community solar sorts of programs. So it's utility scale that a customer can buy a plot, if you will. There will be some residential distributed solar that customers want to invest themselves in private power generation. And so we have a program within the state to allow that to happen. But our plan is built around utility scale because we know that's the best price and most cost effective means of transitioning from fossil fuels to renewable energy.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. That's all I got. Thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thank you.

Operator: And our next question today comes from Angie Storozynski of Macquarie. Please go ahead.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Yeah. Good morning. Thanks for taking my question. So...

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Morning, Angie.

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

A

Good morning.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning. I really have only one bigger picture question. So do you have any near-term plans, what to do with the bank and DIG? I mean, Rejji, you mentioned that there could be some slight uptick in your equity needs. Would you look at these assets as a way to maybe fulfill those equity needs?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. We have no news on EnerBank. There's – nothing has changed as we've said for the last several years. There's no change for EnerBank. It plays a particular role in our plan and continues to do so.

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

A

And Angie, I would just say for enterprises because you asked about DIG, we continue to view that business as, it's heavily contracted, not just DIG, but all the other assets we have there and it's a fairly derisked business. And so we continue to count on it in our five-year plan to give us a pretty steady stream of earnings and cash flow contribution for the next four to five years. So we don't anticipate any dispositions there either.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

We've done a couple small projects as you may be aware at enterprises for renewables, very customer-driven, opportunistic. For example, a 100-plus megawatt wind farm for General Motors in Ohio. We have often customers come to us and say, can you help me make my renewable targets? And so in those cases, enterprises can play that role as well, both in Michigan and out of Michigan.

Angie Storozynski
Analyst, Macquarie Capital (USA), Inc.

Q

Very good. That's all I had. Thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Great. Thanks, Angie.

Operator: And our next question today comes from David Fishman of Goldman Sachs. Please go ahead.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning, David.

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

A

Hi, David.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Good morning. I just had a quick question on just the detail, maybe we'll be getting in the future on the 10-year plan. I know back in 2017, at the Investor Day, you kind of outlined in a little more detail around the gas infrastructure, electric distribution and supply investments. Is that something that we can expect maybe over the next 12 months or so or maybe following a little bit more detail on the gas side once you have the Infrastructure Investment Plan there filed?

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

A

Yeah. So I would say that this level of detail, which we actually think for a capital investment program looking out 10 years is quite good. We don't intend to provide a great deal more granularity. But what you can look for is that we will make some regulatory filings, I'll say in the coming months that do give pretty explicit guidelines around the types of investment we'll make, both in our gas business and over time our electric distribution business and that's where you'll get the additional detail.

And so currently this $25 billion, the split between the utility, electric and gas, as well as the renewable investments, and then specifics around, again, a 10-year glide path for capital investments for gas, again, all of that will be provided to our regulators over time through voluntary filings. And so you'll get more details there, but we don't intend to provide nearly the same level of granularity on this 10-year program as we have on an annual basis in our 5-year programs. And so, I think as you look at the updates on an annual basis in our rolling 5-year plan, you'll get more color on the outer years of this 10-year plan over time.

Does that make sense, David?

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. That does make sense. Thanks, Reiji. And I think earlier, you were asking a question or you were answering a question and you mentioned upside from trackers as one of the potential outcomes there. And I know this isn't talking about a 2020 outcome, but longer term along with these more detailed filings that you're putting out, is the expectation kind of to file along with the EDIIP or the IRP – the opportunity there for incremental trackers?

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

A

Yeah. We'd like to think that in the event we can get more traction on those types of mechanisms that would facilitate our ability to start to take on some more of those upside opportunities because – then you really get to minimize the lag between cost incurrence and cost recovery. But we've clearly demonstrated that we're going to make sure that we crawl before we walk in Michigan in that regard.

And so with each filing, we'll look at whether it makes sense to apply those types of mechanisms to various programs. And if we think it's applicable and can get good alignment with the Commission and staff, we'll look to do more of that over time. But I think it's going to be a measured pace.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Well, I'll just echo Reiji's point here and say that our annual filing standard has worked pretty well for us. It actually allows us to be more adaptive to changing conditions around, where priorities around capital spend might vary from year-to-year. We do have forward-looking test years; so we get good visibility and preapproval for the capital that we spend.

We do also benefit by passing – our customers benefit by us being able to pass along annual savings that we realize to them in those annual rate cases. So, we don't object to the annual rate case methods. But certainly, IRMs and long-term plans that the Commission has requested in gas and electric and our IRP does give all of us a better ability to plan, have alignment, have better visibility, long-term work and investment, which is a basis for our 10-year capital plan. And then it allows for us to plan obviously for the workforce that will complete all of that work. So, what's really important is that we have good alignment with the Commission on the work that needs to be done and then the regulatory mechanisms can work pretty well for us.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks then. That makes a lot of sense. Congratulations again and congrats on the J.D. Power award.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks David.

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

A

Thank you.

Operator: Our next question today comes from Praful Mehta of Citi. Please go ahead.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Hi, guys. Thanks so much.

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

A

Hi, Praful.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Hi, Praful.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Hi. So, maybe first with storage, actually, very interesting you mentioned the storage costs. If you could just give us a little bit more color on how you've seen the storage costs come down and where it sits today. And secondly, what is the storage installation coming along with? Is it coming along with renewables on the utility scale side or DG or both? Some perspective on that would be very helpful.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. Praful, a couple things. When we did our IRP and we did the modeling, we modeled battery storage at about $1,000 a kilowatt over that – by the latter part of the IRP when we would be installing the 450 megawatts. However, I'll tell you, current costs are as high as $2,000 a kilowatt. So, that's still pretty high and out of the market. Now, the ITC, when the storage is combined with solar, that obviously gives you that 30% kicker, which is nice and helps make storage prices lower combined with solar. And I've heard some rumblings in Washington D.C. that maybe they would do a storage-only ITC. I think there's a lot of interest and appetite.

What I think is going to be a bigger driver to the cost curves on storage are really the automakers' commitment to emission-free vehicles and the amount of R&D that is occurring and the dollars, the billions of dollars being spent by the automakers and consortiums and suppliers to them to crack the code on electric vehicle or fuel cells I think will bode well and provide benefits then to the electric industry to be able to utilize that storage technology and the R&D that's happening in that space.

So I would expect that those prices will continue to drop. They're not in the market right now. But we're doing pilots and projects, so we can learn so that we can be ready when that technology cost curve really starts to materialize.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Got you. That's super helpful. And is that installation as you've planned in the IRP more with DG or utility scale or both?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. Mainly, utility scale on the grid as a balancing resource. But I would suggest that our next IRP is going to have a different combination and we're not done with the modeling yet. But early indicators show that we'll have more distributed batteries as well as utility scale storage to make our renewables more dispatchable.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Got you. Thanks. And then Rejji, just from cash and equity perspective. I know you mentioned that the equity number could move a little bit. I just wanted to clarify what you meant by that $150 million moving a little bit. What's the kind of driver and what timeframe are you thinking about for that move?

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

A

Yeah. So if you look at the run rate capital investment we have now, over our five-year plan, we're doing about $2.25 billion. And so that we think, again, can allow us to do that comfortably within our ATM program of about $150 million per year starting in 2020 through this five-year period.

Now, over time, as you think about the quantum of this 10-year plan, where we could be at a run rate of $2.5 billion and if we start to dip into those upside opportunities, it could expand on an annual basis. And so it could go up directionally, but it's difficult to get more precise on that Praful, because again, there are a number of factors that dictate your equity needs.

And so, when will we be a federal cash taxpayer? And so at the moment, we think 2024, but that could change because we thought five years ago, that would be a federal taxpayer now and we're not. And so, that's a big variable; regulatory outcomes is clearly a big variable and then customer affordability and our trends there relative to inflation.

And so, all of those variables will impact the amount of equity we need to issue per year. And so, absent that visibility, it's tough to say how much more it will go up. But again, we'll obviously manage the balance sheet prudently as we have over time and we'll see where the equity needs end up. But I don't think materially you'll see a big rise in the sort of next couple of years, if that's what you're asking.

Praful Mehta
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. I know that's exactly where I was going. All right. That's super helpful. Really appreciate it guys and congrats again. Thanks.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Thanks.

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

A

Thanks.

Operator: And our next question comes from Sophie Karp of KeyBanc. Please go ahead.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Good morning.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Good morning.

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

A

Good morning.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you for taking my question and congrats on a great quarter. So my first question is, you had a very strong quarter and you maintain your guidance, I guess, is there anything specific that – given you guys some caution maybe in Q4, as it evolves or is it just being conservative?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

A

Yeah. We feel good about our year-end guidance as indicated, bias to the midpoint, as we have consistently said. And like every year, every quarter, there are changes that come at us. And we pull back the curtain here and share a little bit on these calls about the kinds of things that we're managing the ups and downs, the goods with the bads, but we are on plan. We feel good about that plan and we ride that rollercoaster and we enjoy it. We enjoy riding the rollercoaster so that you don't have to.

We want to deliver that nice green line that Rejji mentioned in his prepared remarks. That is our promise and that's what we continue to work to do every day and that's what is so much fun about running this business is that we get to manage all those ups and downs and we feel real good about the plan and where we are for the rest of the year.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. And then maybe a bigger picture question. You show on your slides that the customer bills declining or staying relatively flat versus the inflation over the long term. And I guess if you look back, a lot of that has come from lower commodity pricing and lower interest rates and things like that, right? And so as you move in your fuel mix and the incremental generation is – mostly renewables where that's no longer going to be the case. How do you expect – I guess is it going to be a challenge to manage a customer bill with this new and evolving generation mix?

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

No, in fact, it is definitely in line with creating the headroom necessary, the replacement of fuel – the elimination of fuel expense is a huge benefit and keep in mind, we're particularly and uniquely positioned because of these large PPAs on which we do not earn. We're going to be transitioning away from those PPAs which are out of the market today; so our customers are paying a high price for them. We're going to transition to renewable energies with no fuel costs and more competitive pricing on which we earn. And so it's the best combination for our commitment to the triple bottom line. We're excited about where the future takes us on all of that. It's directionally aligned with all of the savings we've achieved to date.

Sophie Karp
Analyst, KeyBanc Capital Markets, Inc.
Q

Thank you.

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.
A

Yeah. Thank you.

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

Thank you.

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

Patricia K. Poppe
President, Chief Executive Officer & Director, CMS Energy Corp.

Thanks, Rocco. Thank you, everyone, for joining us on the call today, and we look forward to seeing many of you at EEI. We'll be able to go into more detail on the capital plan and we look forward to sharing more stories about all of the exciting things happening at CMS Energy. See you soon.

Operator: Thank you, ma'am. This concludes today's conference. We thank everyone for your participation. You may now disconnect your lines.