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CMS Energy Corp. (CMS)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy 2020 First 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 May 4. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I'd like to turn the conference over to Mr. Sri Maddipati, Vice President of Treasury and Investor Relations.

Srikanth Maddipati

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

Thank you, Alyson, and 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 today for our first quarter earnings call. We hope that you're staying safe and healthy during these extraordinary times. This morning, I'll discuss our first quarter results and long-term outlook, as well as provide an update on our response to the COVID-19 pandemic. Rejji will add more details on our financial results later and discuss sensitivities related to COVID-19. And as always, we'll close with Q&A.

You know, I'd like to start by acknowledging that this health crisis is affecting scores of people in really unimaginable ways. My heart is with each of you and I know that there will be a post-COVID. May your family and friends be stronger, closer, and at peace when all of this is behind us. You know what always keeps my team and I anchored is our focus on the long-term and our commitment to the triple bottom line of people, planet, and profit. We have a track record of delivering industry-leading financial performance, and we have solid fundamentals in our favor that have served us well in years past and will enable us to navigate today and in the future.

Now, let's get to the numbers. We delivered adjusted earnings per share of $0.86 in the first quarter, despite challenging weather conditions and the onset of this unprecedented global pandemic. Our first quarter results were $0.11 better than 2019 results for the same period, mostly driven by cost management, regulatory outcomes, and our ability to adapt to changing conditions, whether it be the temperatures outside or adjusting to life under a stay-at-home order.

As the Stay Home, Stay Safe order is still in place for Michigan and the situation is continuing to evolve, it's too soon to provide an update on our guidance we issued on January 30th. So, given the fluidity of the situation, at this time we're not changing our guidance for the year of $2.64 to $2.68.

Though the current circumstance is certainly challenging, our investment thesis remains intact and our business model resilient, both of which will support our long-term operational and financial objectives, as we continue to target long-term annual earnings and dividend per share growth of 6% to 8%.

Let's take a moment to get everyone up to speed on what we're seeing here in Michigan and what we're doing to lessen COVID-related impacts on the communities that we serve. On March 23rd, Governor Whitmer issued a stay-at-home order requiring all non-essential businesses to close until April 13th, which has now been extended until mid-May with some loosening of retail and recreational restrictions previously in place. Schools are closed for the remainder of the academic year.

Prior to the Governor's order, we established our Incident Command Structure, or ICS, so we were already functioning in our emergency response mode as conditions worsened, particularly in the southeast portion of the state.

Early on, we retained a Chief Medical Officer to help guide our operational decision making and ensure we could perform our necessary work safely. We instituted a travel ban for business activities and the necessary self quarantining for employees after any personal travel. We quickly transitioned to a remote workforce, and I'm pleased that the team responded with great agility.

For team members in critical onsite operational roles, including those working in control rooms and at generating plants and natural gas compression stations, we've implemented numerous safety protocols following all CDC guidelines, including, and in some cases, sequestration. For the remaining workforce, our coworkers are either working from home or reporting directly to the job site from their homes to continue operations in the field and ensure their safety.

At this time, we've experienced zero fatalities and 11 of our over 8,000 coworkers, our work family, have tested positive for COVID-19. Yet we're thankful that seven of those coworkers have been able to return to work and that each identified case has yielded fewer and fewer ancillary cases of contact, which means our social distancing is working.

Our COVID-19 case rate is 3 times less than the broader Michigan rate. We believe that our safe work practices have been essential in protecting our coworkers from exposure to this virus. We're taking biweekly pulse surveys of our coworkers to see how they're doing during this time. And I'm very proud to report that over 90% of our team is satisfied with how we're handling the COVID-19 pandemic as a company.

Our safety culture and commitment to our people has been a source of strength for all of us and we'll remain deliberate in our efforts to keep our coworkers and our customers safe. Beyond safety, we know our customers are facing economic challenges and we've stepped up to support them. Some of the most deeply impacted at this time are our small business customers, who are the heart of Michigan's economic engine.

When we get on the other side of this current crisis, and there will be another side, our small businesses will serve as an essential role in fueling the economy once again. We know and love these customers and understand the hardships they're going through and have tailored our services accordingly. We've redeployed our business customer care team to help our customers navigate the state and federal assistance programs. We trained our team on the federal and state funding available, and created scripts and content specifically tailored to our small business customers.

And on a personal level, some of you may have seen, my husband, Eric, and I set up The Dream Maker Fund at the onset of the crisis with a personal contribution, which has provided emergency relief to our small businesses in Jackson, Michigan, where we live and where the company is headquartered. This has given us a front row seat on the small business impact of COVID-19 here in Michigan.

The company and Consumers Energy Foundation have also taken a number of actions to help our vulnerable residential customers including extending our payment protection plans through June 1st, dispersing over $1 million in grants and donations to facilitate the needs of our health care workers, supporting our local food banks and charities, as well as matching our coworkers' donations to local charities.

Needless to say, we haven't lost track of you, our investors. We're mindful of the COVID-related risks on our business, and we're always on the job identifying those risks and managing the work every year in every aspect of the business.

We operate both a natural gas and electric business, and natural gas represents one-third of our revenues at the utility and is the fastest growing segment. The bulk of our gas business margin comes from our residential customers and is earned in the heating season, which ended in March, and we expect residential gas sales to be normal in the fourth quarter.

While our electric deliveries are certainly down year-over-year, we'll remind you that we have a track record of mitigating financial risk, given the inherent volatility in our business, which I'll cover on the next slide.

We're grateful for the leadership and partnership our Public Service Commission has demonstrated. We're working together to make sure our coworkers are safe and our customers are cared for. The Commission is collecting and reviewing costs related to COVID-19, including uncollectible accounts and sequestration and quarantine-related costs. The Commission established deferred accounting for uncollectible expense above what's currently approved in rates, which Rejji will elaborate on later, and speaks to the constructive regulatory environment here in Michigan.

As we turn to slide 6, we'll remind you that we've seen significant unforeseen challenges and double-digit EPS downside in previous years. In fact, in 2016 and 2017, we had as much as $0.13 and $0.16 of negative variance. And through conservative planning and a bottoms-up approach to cost management, we were able to deliver on our operational and financial objectives.

With that said, as a result of anticipated COVID-related financial risks this year, like most, we've implemented several cost control measures, such as a hiring freeze, reduced overtime, and minimized travel and training expenses. Plus, more sustainably, we'll rely on our ability to accelerate cost savings and waste elimination through our Consumers Energy Way to pursue our financial objectives without compromising customer service. Rejji will provide some of the sensitivities for the risks we've highlighted and potential offsets.

As we gain more visibility in Q2 and beyond, we'll adjust our plan accordingly to remain agile and make choices that mitigate the impacts in 2020 and protect our long-term operational and financial performance. While we don't know the ultimate impact of COVID-19, we do know how to manage and operate a world-class business that delivers over the long-term. And that brings us full circle as we talk to you today.

Our long-term investment thesis remains unchanged, despite the near-term uncertainty presented by COVID-19. Over the years, we've been good stewards of the balance sheet, maintaining a healthy level of liquidity and we plan conservatively. We still have a large and aging system in need of significant investment. We still have a constructive regulatory environment. And we still have the CE Way that enables us to serve our customers, while keeping their energy costs affordable.

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

Rejji P. Hayes

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

Thank you, Patti, and good morning, everyone. Let me first echo Patti's comments by wishing each of you and your loved ones safe passage through these trying times in which we live.

As Patti highlighted, we're pleased to report our first quarter results for 2020. We delivered adjusted net income of $245 million, or $0.86 per share. Our adjusted earnings exclude select nonrecurring items, primarily related to costs resulting from a voluntary coworker separation program, which we commenced in the fourth quarter of 2019; and the favorable reversal of an accrued expense related to tax reform.

For comparative purposes, our first quarter adjusted EPS was $0.11 above our Q1 2019 results, largely driven by rate relief, net of investment-related expenses at the utility, and solid cost performance throughout our business.

Switching gears to the COVID-19-related financial risks, as Patti noted, we're ever mindful of the potential impacts of COVID-19 on our business and have begun to implement cost control measures to mitigate these risks. On slide 9, we've provided a summary of potential impacts, as well as several mitigating factors, which should help reduce our exposure to some degree.

First, I'll start with utility, which I'll remind you represents about 90% of our business. The effects of the pandemic in Michigan that Patti referenced has unsurprisingly reduced commercial and industrial activity in the state, which has begun to materialize in our electric sales.

Based on daily volumetric trends extracted from our smart meters over the past month or so, we've seen declines in weather-normalized commercial and industrial load of about 20% to 25%. The C&I load reduction has been partially offset by residential load, which is up over 5% over the same timeframe, presumably due to mass teleworking and self-quarantine measures. As noted in the past, the residential customer segment offers our highest margins and represents over 60% of our customer contribution for electric and gas combined, which I'll discuss in more detail later.

The other noteworthy financial risks at the utility attributable to COVID-19 are potential increased costs in uncollectible accounts due to delays in customer payments, and sequestration and quarantine-related costs to ensure the safety of our coworkers. As mentioned, we are working hard to mitigate these risks through cost control measures and customer outreach programs.

We also recently received an accounting order from the commission to apply deferred accounting to uncollectible account expenses in excess of rates, as Patti noted. And we'll soon file a response to this initial order seeking approval to defer other costs related to COVID-19, including sequestration and quarantine-related costs.

As for our nonutility businesses, which collectively represent about 10% of our earnings, the potential risks are largely on the revenue side and, broadly speaking, are fairly well-mitigated. At Enterprises, the vast majority of its revenue streams are contracted at fixed prices with creditworthy counterparties.

It is also worth noting that the Supreme Court of Michigan recently issued an order upholding the MPSC's ability to enforce a local clearing requirement for all energy providers in the state. Longer-term, this decision could create opportunities for DIG, given the favorable trends we've observed in the last two Planning Resource Auctions in MISO for Zone 7, which just cleared at the cost of new entry.

With regards to EnerBank, the primary risks in the current environment are loan origination volume and a potential increase in charge-offs, but it's important to remember that the business model at EnerBank is unique. We are not underwriting mortgages or making auto or small business loans.

EnerBank underwrites home improvement loans primarily to premium credit quality borrowers, whose average FICO scores are above 750. This borrower base has proven to be relatively more resilient during economic downturns. And, in fact, in 2008, EnerBank's originations increased, given the relative inelasticity of its core borrower base and through market share gains at the expense of weaker capitalized competitors.

The final notable risk from an earnings perspective is in our parent and other segment, which is largely comprised of nonrecoverable financing costs. And I'm pleased to report that due to proactive and cost-effective liquidity management from our Treasury team, we have no remaining maturities in 2020 and have fully priced our planned equity issuance needs for the year through forward contracts, which I'll elaborate on later.

Circling back on the utility sales risk, which we view as the most substantial risk to our business in the current environment, slide 10 highlights the relative contribution mix of our customer segments and the load reductions we've witnessed since late March.

As you'll note, the residential segment represents approximately 60% and 75% of the customer contribution for the electric and gas businesses, respectively; and over 60% of the total customer contribution at the utility, as I highlighted earlier. So, any uptick in growth in the residential segment should partially offset the expected declines we anticipate in the commercial and industrial segments.

All-in, given the current sales trends we've observed since the public response to the pandemic, we estimate approximately $0.03 to $0.04 of EPS dilution per month. As Patti noted, at this point it's too early to tell how long and to what extent social distancing measures will remain in place or how strong the economic recovery in Michigan will be upon its conclusion. As such, we have provided this monthly sensitivity for your modelling purposes and will keep you abreast of any material changes to our plan.

On slide 11, in our waterfall chart, you can see the key factors impacting our financial performance relative to 2019. Despite an unusually warm winter, which offered $0.23 of negative variance versus Q1 of 2019, the absence of the substantial service restoration costs due to storms we experienced last year, coupled with last September's supportive gas rate order, and cost performance throughout the business, delivered $0.11 of net positive variance versus the first quarter of 2019.

Depending on the extent to which the financial risks of COVID-19 manifest, we believe the glidepath illustrated on this slide could enable us to achieve our EPS guidance, as we plan for normal weather and anticipate a constructive order in our pending gas case in mid-October.

As mentioned, the ultimate impact of COVID-19 on Michigan's economy and our business remains uncertain. So, we've referenced the estimated monthly EPS dilution of $0.03 to $0.04 in the event the level of sales degradation that we have witnessed to-date persists.

Further, we will closely monitor the potential risk to our business, some of which have been mitigated through regulatory support. We have also added the historical range of annual financial risk that we've successfully mitigated over the past several years, which equates to approximately $0.10 to $0.15 per share, or $40 million to $70 million pre-tax.

Clearly, we have a strong track record of managing the work and delivering cost reductions through our lean operating system, the CE Way, and other initiatives; and as Patti noted, we have already implemented an initial wave of cost control measures.

Needless to say, we are not here to represent that any downside scenario can be overcome, particularly given the unprecedented nature of this global pandemic; however, we are confident that we can minimize the financial risks in 2020 without jeopardizing our long-term value proposition to our customers and investors.

As we execute on risk mitigation strategies, you'll note on slide 12 that we have prioritized liquidity management and have over $2.3 billion of net liquidity available, which includes unrestricted cash and untapped revolving credit facility capacity as of March 31.

We've always managed our balance sheet in a conservative manner, and so while there have been a lot of concerns regarding access to the commercial paper market, I'll remind everyone that we do not rely on CP as a permanent layer of funding, nor do we have any outstanding at this time.

As part of our funding strategy for the year, we've put in place term loans at the parent and the utility for $300 million each, and those don't mature until 2021. And in mid-March, we issued $575 million of first mortgage bonds at a rate of 3.5%, which addressed our sole maturity across our debt issuing entities in 2020 and funds our capital programs.

From an equity financing perspective, we announced on our Q4 call our plans to issue up to $250 million of equity, all of which is priced under existing equity forward contracts, and we drew down approximately $100 million of that capacity in late March. We expect future equity issuances can be completed through our ATM program, which we will likely refile in the coming months.

All of our financings have been executed at terms favorable to our plan, which offer intra-year savings and help de-risk the future. As we look forward, we'll continue to maintain flexibility and capitalize on accommodative market conditions when they emerge.

I'll end with our credit metrics on slide 13, which remain well-above the thresholds for investment grade ratings among all three credit rating agencies. Our focus on maintaining a strong financial position, coupled with a supportive regulatory environment and predictable operating cash flow growth, supports our strong ratings; and we'll look to maintain our strong credit quality with an eye toward the future to the benefit of customers and investors.

And with that, I'll pass it back to Patti for some closing comments before we open up the lines for Q&A.

Patricia K. Poppe

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

Thanks, Rejji. My coworkers and I remain on the job every day for our customers and for you, our owners. We're focused on delivering an essential service to nearly 6.7 million of our fellow Michiganders. The capital you all provide is critical, and our long-term track record of managing that capital speaks to that commitment.

As I mentioned, we've been good stewards of our balance sheet with prudent planning and our conservative liquidity management continues. Already for 2020, we executed financings at attractive rates that enable us to fund our capital programs.

Our operational excellence shines through during times like these. As we continue to rely on the CE Way and lean in on that lean operating system we have in place, we improve each and every day. We put to work efficiencies that drive-down costs and eliminate waste, and I can tell you that system is in overdrive right now, which speaks to our agility as we shift accordingly depending on how this current environment evolves.

Since the 2008 Energy Law was established and updated again in 2016, Michigan has remained a top-tier regulatory jurisdiction. With forward-looking test years and ten-month rate cases, we're fortunate to have such a constructive regulatory framework in statute. We also have a supportive Commission, as you can see by their recent order responding to the pandemic for the protection of vulnerable customers, while being mindful of the utility being able to fund its operations and attract low cost, long-term capital.

Our system remains in great need of replacements and upgrades, and that won't go away as a result of the current pandemic. Again, we're fortunate that our plans have embedded structural cost reductions in the form of retiring coal plants and PPAs expiring.

Finally, none of this comes at a price to our planet and the great state of Michigan we all love so dearly. Our net zero carbon and methane goals remain as important today as the day we established them. Our model holds together well. That's why this thesis remains intact, and that's why we can rely on our triple bottom line to get us through this current crisis just as it has in the past and will do so in the future.

With that, Alyson, will you 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] The first question will come from Shar Pourreza of Guggenheim Partners. Please go ahead. One moment please. One moment. Thank you. And, Shar, your line is now open. Please proceed with your question.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Hey, good morning, guys.

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

A

Good morning, Shar.

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

A

Good morning.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Couple of questions here. So first off, could you talk about the $0.03 to $0.04 impact per month based on the sale sensitivities that you provided on slide 10? You're, obviously, levelizing this, but should we expect any kind of peaks or troughs over the next two quarters? Some utilities assume business closures in Q2, some return in Q3, and a bit more of a mean reversion in Q4. I know we're only two months into this, but just trying to get a sense on the monthly profile of your sensitivities that you assume and plan or really what the guidance can withstand. Obviously, on slide 4, there seems to be a little bit of cautious language around the uncertainty of duration and the full impact of COVID. So I know – what are your prelim thoughts even though it's a very early stage?

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

A

Shar, thanks for asking. We've tried to be really transparent here. We have a track record of offsetting negative impacts, the EPS, as you mentioned, ranging in as much $0.10 to $0.15. We also have a track record of transparency, which is why we've tried to be as direct and forthcoming as we count about the C&I sales that have dropped 20% to 25% versus expectations. And with – then the offsetting residential sales up over 5%, the earnings impact, as you've mentioned and what we've said, is $0.03 to $0.04 per month under the current conditions.

Now, here's the variables. How fast will businesses bounce back? How soon will people gather in public spaces? How quickly will manufacturers be able to start making nonessential goods again? Our stay-at-home order is still in place till May 15th. Will the government stimulus help, so that the small businesses can come back after this? At this point, there's just too many unknowns, Shar. And so, while we'll continue to remain conservative, we don't feel that we know enough right now. And so, I guess I would offer this thing.

One thing you can count on us to do is to call it straight. We've never overpromised, and then under delivered; and nor have we really under-promised and over delivered. We do what we say. I'm comfortable in the fact that our long-term fundamentals are the same and our short-term actions will stand the test of time. One of the things, Shar, that I think about a lot is that our customers, our coworkers, and our regulators will long remember how we handled these temporary times. I feel good about that, because we're doing the right things.

And we, like always, are acting with the long-term in mind, and the long-term outlook has not changed and our fundamentals remain sound. So as we think about any adjustments we would make this year or any actions we would take this year, we're always thinking about the next year and the next. And so we're balancing all of those factors and doing everything we can to serve the triple bottom line.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. And let me just – let's assume this is a little bit more protracted. Can you talk about sort of the incremental levers? As you mentioned $0.10 to $0.15 of historical flex range on slide 11, do you have more?

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

A

What I would say is our historical performance is a good indicator, but we've also – now we're about four years into the CE Way and that things on overdrive, man. Our team is on the job. They're looking for waste elimination all across the organization. We have 1,254 projects already identified this year, start of day time reduction.

Some of the things that we're doing now as a result of the crisis, such as job site reporting, are actually saving money. And so, it's both a combination of current factors, there's current environmental things that allow us to save money, plus our CE Way and the waste elimination, and our ability to deploy our team to as much long-term capital work, are the kinds of ways that we see tackling this challenge in a sustainable way.

We're always thinking about the next year and the next, and so the cost savings that we would do would only be those that don't do damage to the future. The one thing we think about, we're not going to pull out all the stops and do damage to future years to hit some kind of unreasonable outcome this year. We're going to be in it for the long-haul, and I think that's why people trust us and invest in us.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. And then just lastly, the volume reductions on the C&I side, the 20% to 25% reduction that you've seen since March. Is that sort of auto or auto supplier related? What drove that?

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

A

We have limited exposure to auto, less than 2% Tier 1 suppliers plus the automotives themselves to our margin. What we're seeing is more the stay home order closed all restaurants, it closed all retail, other than nonessential retail like grocery. And so, that's where we're really seeing a lot – and small manufacturers that aren't making essential goods.

As I mentioned, my husband and I did this fund, and so we've had an opportunity to look at all of the applications just in Jackson County and it's a whole range of things: golf courses, restaurants, bakeries, retail, little manufacturing shops, welding shops. They're in a holding pattern right now waiting for the order to be lifted. And some of those businesses, even after the order's lifted, will be affected by people's reticence to gather in groups. Others will get right back at it.

And so, we see a balance between some of them just purely waiting for May 15th, and they'll be back on it full-time and there'll be others that may have a demand reduction because of people's fear. And so, again, there's a lot of unknowns and, fortunately, our smart meter data is very accurate and we can see real-time what's happening, and it helps us make better decisions and better choices.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Terrific. Thank you, guys. Stay safe and we'll see you soon.

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

A

Thanks, Shar.

Operator: Our next question will come from Steve Fleishman of Wolfe Research LLC. Please go ahead.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Great. Thank you, Patti, Rejji, Sri. Hope you're all doing well and your families.

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

A

Thanks, Steve. Good morning.

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

A

Same to you, Steve.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Good. So, just first on the sales, that March to April data, do you have just an overall number across the class, the overall sales change?

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

A

Rejji, what's out total sales adjustment then?

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

A

Yeah. We don't have – if you're talking about post Q1 beyond March 31, we do not have a full read across all of our customers, because smart meter data will hit the portion of our customers that are select classes of large industrial and commercial customers that do not have smart meter data available. We do get good anecdotal evidence from those customers and do get good visibility, but we don't get perfect information really until we get to the end of the quarter. So, there are some limitations in that.

But I would say, Steve, going back to Patti's comments, the 20% to 25% we highlight here again, that is not indicative of all of our customers, but it's a decent read for now, for that monthly read that we've offered from late March through kind of mid-to-late April. So that's – again, it's not a every single customer, but it's a decent portion of them.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. Yeah, I was just curious because when we've looked at regions, we're not really seeing any region down more than 10% or so, but obviously that doesn't get to individual states or territories. So, I'm just kind of trying to compare it to the more original data we've seen, but...

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

A

Yeah, Steve, I would say 10%...

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

...10% total is a decent bogey for our customer base is why you're in the neighborhood, for sure.

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

A

That's exactly, right.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. Great. And then on this $0.03 to $0.04 per month data, a lot of utilities have different – depending on the season, the earnings impact, so the same sales change can vary, like a Summer month might be worth more than a shoulder month. So could you just talk about the seasonality of that sensitivity and just thinking about it this year?

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

A

Well, we always deal with seasonality and the weather, and that's what we certainly – weather and storms, we've done a good job overcoming. In this scenario, there are so many I would suggest the bigger drivers than just the weather, that seasonality is, obviously, clearly a variable, but not nearly as much as some of the unknowns associated with the rate that businesses return to action. I don't know, Rejji, you might want to add something to that, though. Go ahead.

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

A

The only thing I would add is certainly the timing of this is somewhat fortunate, because we do expect higher volumes as it starts to grow a little warmer particularly in the residential class now, so we see more industrial activity sort of as you get past those shoulder months. And so, the timing of this, I guess, if you could have it happen at any time, which you don't root for, this would be the time to have it, and so certainly there are greater expectations for load once you get beyond sort of the March/April timeframe.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. Maybe I could have asked the question different – do you...

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

A

Well, I'll just chime in one last thing, Steve, that one of the points that we recognize is that even after an order is lifted, it's likely – and I'm hearing from a lot of businesses – that they'll keep their people working from home if they can. And so that residential bump may continue into the summer months and, obviously, air conditioning load is a big driver in Michigan to sales in the summertime. And so, if all of those folks are still – or if a lot of people are still working from home, that obviously has a favorable impact in the Summer months.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. Maybe I should have just asked, do you have a Summer/Winter kind of rate differential, or is it pretty much the same rate all year?

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

A

Generally the same rate all year, so...

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay, okay.

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

A

...next year we'll be implementing a more of a Summer peak rate, but it's generally about the same throughout the year.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Got it. Okay. And then one last question, just could you talk a little bit about the trends you're seeing so far on non-payments and kind of how notable that might be? Any color there?

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

A

We are watching that – one of the things with the uncollectible accounts is they do lag. And so, we can see to some degree it's very early. If you can imagine, it's at a minimum a 30-day lag before we know if somebody didn't pay their bill. And so, sometimes the uncollectible accounts really take almost three to six months to show up and to really be accounted for. And so, we're watching, we're seeing a slight uptick, but it's early. We haven't even crossed all the cycles for some of the customers.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay, great. Thank you.

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

A

Thank you.

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

A

Welcome. Thanks, Steve. Stay well.

Operator: Our next question will come from Michael Weinstein of Credit Suisse. Please go ahead.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning.

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

A

Good morning.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Just a follow-up on some of those last questions. Can you speak to how some of this will be handled in the ongoing rate cases, right? You have almost annual electric rate cases, and an ongoing case that was just filed in February. So how does that case get updated for changes to load and changes to uncollectibles and everything else?

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

A

Yeah. The cases are filed. Our gas case, we filed in December; and our electric case, we filed here in February. So, there's not a clean way to have a significant substantive change to sales, and frankly, it would be hard to do it, because we have forward test years. So what sales figure would we predict? So we expect that our rate cases will continue as planned. And because we do annual filings, in the future if there's a permanent degradation to sales, then we would reflect it. But it's pretty hard to capture a temporary degradation in sales like the one we're seeing in any kind of active filing.

The good news is that our commission has been very supportive. Just a shoutout to the Michigan Public Service Commission and all their folks for adapting so quickly to this changing condition, they've already started holding their meetings and conducting business remotely through webcast. They too have had a significant impact.

So, thanks to all of them for acting so quickly and working with us on this new order for the CV-19 cost, as well as the uncollectible accounts and trying to make sure that we as the utility are in a position to serve our customers well, do what's right, care for our most vulnerable customers, and know that we can still function in a strong financial position that reflects the capital attraction that we need to demonstrate. And so great partnership with the commission and all their team working so hard to just figure out these unknowables together.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC Q

Got you. And could you contemplate lower capital spending, if necessary, if things drag on long enough?

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

Yeah. Right now we're not seeing that in the plan, and in fact we're working hard to make sure that – for example, our power plants, because energy load and demand is down, are in economic reserve, a couple of our coal plants. And so that gives us an opportunity to pull ahead a capital outage at that plant earlier in the year than we had originally planned. So we don't have any plans in the near-term to have any adjustment to our capital plan. In fact, we're going to really work hard to make sure we keep that plan on track.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC Q

Got it. And on DIG, just wanted to ask about the local clearing requirements. It doesn't look like the impact of that Supreme Court decision would probably impact until 2024 and beyond, I just wanted to make sure about that.

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

Yeah. Because DIG is basically fully contracted, it doesn't have any certain impact on 2020. Minimal in 2021, but there could be some outyear impact that could be beneficial. But again, just keep in mind that DIG is predominantly contracted, as Rejji had mentioned, with high-quality off-takers. We are pleased with the outcome of that order, though, and shout out to our legal team took it all the way to the Supreme Court of Michigan, did a great job advocating for the Public Service Commission and their authority to require a local clearing requirement.

The law that we worked so hard to pass back in 2016, that was a fundamental element of it, to make sure that Michigan as a peninsula Zone 7 has adequate supply to serve the load. And with our kind of hybrid retail open access 10%, it does put at risk reliability in the state. So very happy with that outcome, and very thankful and proud of my legal team for the great work that they did.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC Q

Yeah, looks good. Hey, one last question, on AMT credits and acceleration in the stimulus bill, have you guys quantified that at all?

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

Yeah. So we've benefited – and remember, it's just a cash benefit, but about $30 million AMT credits will pull forward in 2020 that would have originally been refunded in 2021. Again, that just affects cash, not earnings in any way.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. That's all I have. Take care, guys. Stay healthy.

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

Thank you, Michael. Thank you so much.

Operator: Our next question will come 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. Hope you all are well.

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

Good morning, Julien. You too.

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

Excellent. Hey, so just wanted to follow-up. So, you all are maintaining your guidance. So, when you think about the sales forecast that you're embedding in that, I understand the $0.03 to $0.04 here is sort of as a sensitivity. But what are you specifically thinking about in making that statement to reaffirm rather than withdraw, as we've seen perhaps more so in other sectors? And to be even more specific about it, I think you've alluded to perhaps $0.15 or $0.16 historical perhaps cost flexibility in your plans. Can you talk to that, too, as you think about what the latitude to reaffirm here?

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

So, Julien, and I know everyone wants precision in these uncertain times, and there's a reason why the word unprecedented is like the number one word in use these days. We just haven't been here before. So, as we said, it's just too soon for us to update our guidance and it would mean that we know exactly how the health crisis ends, how the economy will look afterwards, and frankly, we don't know. And so, there are reasons to believe in a bounce back. The federal stimulus is working. We're watching it help small businesses. But can the businesses get access to it? Construction, manufacturing, ag can bounce back quickly and work safely, but will there be demand?

I talked to an office furniture CEO. Most of the office furniture in the world is made right here in Michigan and I talked to one of the CEOs last week, and they may be at all-time highs because safe workplaces need to be reorganized and new furniture is going to be required or maybe none of us are reporting to an office ever again. There's just a lot of changes. Will there be a drive in residential electricity demand? We've talked about that already, maybe there will be.

The shelter-in-place order can be lifted, but how long will people feel – will it be before people feel safe to congregate in a public gathering? I don't know, we don't know. But here's what we do know, Julien. We know that we need our coworkers healthy and motivated to do our capital plan. And it's a good infrastructure plan that serves the people of Michigan. We need our regulators to trust that we're doing what's right and taking care of both our coworkers and our customers. We need our customers to be with us and to survive this pandemic and be open for business when it's over, which is why we're working so hard to serve them with new information and help them navigate the circumstances.

What we can do is continue to run this business, and look to mitigate costs and risks as they come up and never lose focus. And as I mentioned earlier on the long-term fundamentals, they're solid, right, the fundamentals of the business are the same. How we handle it in this temporary condition, as I mentioned, will be long remembered. And so the cost savings, additional cost savings, what we would do to mitigate it are all going to be with an eye on the future.

We're not going to take short-term risks on tomorrow's performance. And so, we're going to do our darndest, you know us, you know how we think and how we operate. Again, our CE Way is a great source of comfort to me, because we've actually developed some real capability across the organization and it's in overdrive, as I mentioned. So given all that, I would say it's too soon to say, but trust me, we're not waiting on the sidelines to figure it out.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

Got it. And then related question super quick. I mean, you all working proactively with the PSC here to address recovery of certain items. How do you think about that being reflected, again, in numbers specifically in 2020 here as you continue to move through the course of the year. I just want to be clear about that, given some differences in the sector.

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

A

Well, we're going to have to see. We'll be filing our response. They've asked for comments, which is very important and constructive. We need to hear from a lot of people as we make these determinations. Once the accounting is clarified and we've got certainty about that, then we can account for it and it will have benefits, obviously, in 2020. They've been pretty clear about the uncollectible expenses as a result of a mandate to not shut off our most vulnerable customers, our seniors and low-income through June 1st. And so they've been pretty clear about those uncollectible expenses and the accounting treatment thereof, but it's really some of the other expenses and exactly the timing of that uncollectibles, when it materializes, et cetera. So, others will be weighing in and certainly I can't speak for the MPSC, but I can just say that we're working together to make sure that we're able to serve the most vulnerable constructively.

Julien Dumoulin-Smith
Analyst, Bank of America Merrill Lynch

Q

All right. I'll leave it here. Thank you all very much.

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

Thanks, Julien.

Operator: Our next question will come from Stephen Byrd of Morgan Stanley. Please go ahead.

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

Hi, good morning.

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

Good morning, Stephen.

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

I wanted to give congrats on all the community outreach efforts that you all are making. It looks like a lot of great stuff going on.

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

Thank you.

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

Wanted to – a lot of my questions have been addressed, but just on the EnerBank side of things, could you just talk a little bit more about new business opportunities that you're seeing? I guess, I'm certainly not a bank analyst, but I would have thought sort of home improvement activity would be going down a great deal. But I was just curious what you're seeing on sort of new business.

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

Well, I've been doing all the talking, so I'm going to hand it over to Rejji. He's the Chairman of the EnerBank Board. I'll let him speak about the great work that the EnerBank team is up to. Go ahead, Rejji.

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

Thanks, Patti, and good morning, Stephen. So, Stephen, I would say that certainly we did see a little bit of a slowdown in March on origination volume, but we've actually been encouraged with what we're seeing in April and it's important to note a couple things. So, every state has a different approach to the executive orders that have rolled out, but financial services is deemed an essential service, and that's a federal mandate. And so, we've managed to continue our underwriting and also construction projects that are work-in-progress or CWIP.

For all intents and purposes, those bits of work have also been permitted to continue on, and so we really haven't seen the type of slowdown you would anticipate for some of the loans that EnerBank has historically underwritten. So, I would say encouraged by what we're seeing in April; unsurprisingly, a little bit of a slowdown in March, and we still think they started the quarter off – or the year off pretty well, about $0.01 above the prior year, and we're only asking for about $0.01 to $0.02 of growth year-over-year for them, and they appear to be on track.

And so, the other opportunities, as you think about origination volume, is also on the gain share side. And so what we've seen in the past, particularly in 2008/2009, is you had a lot of weaker capitalized competitors who kind of fell by the wayside. And we've already seen anecdotally some large customers come our way, because they know that EnerBank is in it for the long-haul, this is their primary focus. And so we've actually taken some share, which we also did in 2008/2009, and so just existing originations and continuing to execute on our plan, as well as taking share also create opportunities this year and so we feel good about the road ahead where we sit at this point.

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

That's really helpful, Rejji. Thank you. And then just one another question on your 2020 EPS slide, slide 11, more of a housekeeping item, but just you mentioned the historical flex range of $0.10 to $0.15 on that slide and I just wondered what timeframe. Is that annual? Is that for the nine months to go? I just want to make sure I understood that.

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

Rejji, you can go ahead.

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

Sure. Great. So, yeah, we look at that range and it's based on what we've done historically over the last several years. And so, we've seen that level of negative variance in a quarter, we've seen over the course of a year, but we've managed the – and historical context overcome levels of flex of that magnitude or levels of negative variance of that magnitude. As I look at this year, we certainly think that $0.10 to $0.15 year-to-go is certainly within us, and let's just think about what that math equates to.

So, on the low-end about $40 million pre-tax and the high-end, call it, $60 million to $65 million. And when you think about our year-to-go spend, we've got about $1 billion of, I'll say, actionable opportunities between operating and nonoperating cost pool. So that reduction equates to a little more than 5%, which is certainly within us. And so, not to suggest it's easy. And to Patti's earlier point, we're not going to do anything that's rash or detrimental to the years to come. And so, we do feel like it's within us, but at the end of the day, we'll have to see how this equation in Michigan materializes and we'll make prudent decisions as we always do.

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

That's great. Thank you. That's all I have.

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

Thanks, Stephen.

Operator: Our next question will come from Jonathan Arnold of Vertical Research. Please go ahead.

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

Good morning, Jonathan.

Operator: One moment, please. And, Jonathan, your line is open. Please proceed.

Jonathan Arnold
Analyst, Vertical Research Partners, LLC
Q

Well, I guess my questions were just answered. So, thank you, guys.

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

Thanks, Jonathan.

Operator: All right.

Jonathan Arnold
Analyst, Vertical Research Partners, LLC
Q

Yeah.

Operator: Thank you. And our next question will come from Andrew Weisel of Scotiabank. Please go ahead. One moment, please. Okay, Mr. Weisel, your line is open.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.
Q

Hi. Good morning, everyone.

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

Good morning, Andrew.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.
Q

To go back to this $0.03 to $0.04 monthly EPS impact from lower volumes, if I'm reading that correctly, that's only on the electric side. Do you have preliminary April data for gas demand and what that might mean for a monthly run rate? It's a shoulder season, of course, but do you have any kind of ballpark rule of thumb for the gas side?

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

Yeah. First of all, as I mentioned, Andrew, the bulk of our gas is certainly during the heating season, and that is behind us, that ends in March. And so the $0.03 to $0.04 represents electric and gas for your sensitivities.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Ah, okay, good. Thank you. Then last question is, for the two rate cases outstanding, have the conversations changed much given COVID-19? I know you're always laser-focused on affordability. But are you hearing more concerns about things like the jump in unemployment and that we're presumably in a recession? And as part of that, do you see any potential for the timing to be elongated, whether that's due to logistics or affordability concerns?

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

A

Affordability is always factored into our filings to begin with. And so, for example, gas, our gas bills, our customers' bills are down 30% because of commodity benefits. And so, I personally think there's no time like now, with the commodity prices where they are and how it's clear they're going to remain where they are, that we make the system safer. The system safety and the priority of the infrastructure investments on that system don't change because of this, and thankfully the commodity price is so low. So we can continue to keep our bills affordable both on the electric and the gas.

Net-net, we're starting to really pay attention to the percent of household wallet that our bills play in. They're in a 3% to 3.5% combined gas and electric, and we feel like that's extremely affordable. And so that's always been the focus in our cases and it will continue to be, but we feel good, given the combination of the commodity price plus the value that the infrastructure investments has for customers.

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

A

Andrew, you also asked about just process and timing, and the only thing I would add to that end is that the Commission has – like a lot of organizations and businesses in Michigan, has transitioned quite nicely to mass teleworking, and they have not missed a beat to-date. And so, we've had very close communications with them. They have managed to keep up their adjudicated processes, and we also highlighted that they had a meeting on the 15th, where they gave us that very constructive order on the COVID-19-related costs.

So they are on track, but it's also worth noting that per the statute, there is a 10-month stipulated period. And so in the event there are delays, we do have the legal right to self-implement at that 10-month period, which for gas is around mid-March and for electric it's in very late December.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Got it. Okay. That's very helpful. And just clarify, though, on affordability, I think that was a great recap of your side of it. My question was more from interveners or regulators themselves or Staff, has there been any kind of heightened concern about it, given what's going on in the economy?

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

A

I think their concerns are consistent with concerns in the past, that we will be concerned and they are too. And so we're pretty well-aligned in that attention and focus.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Okay, great. Thank you.

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

A

Andrew, one more thing, just to circle back, apologies, but gas, the timing of that is mid-October; I mentioned mid-March, mid-October, excuse me.

Operator: Okay. And our next question will come from Travis Miller of Morningstar. Please go ahead.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Thank you. Good morning.

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

A

Good morning, Travis.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Wonder if you could talk a little bit about what you're seeing on the renewable side. How much were you expecting in terms of project completion or contracts to sign this year? And what are your thoughts, what are you seeing in terms of being able to get those numbers, plus or minus, your expectations for the year?

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

A

Yeah. Our big projects this year are a couple of wind projects that are scheduled to close by year-end, and both of those are on track. We have been issued force majeure letters, but that doesn't mean that work stops. It's just sort of a forewarning that there may be a shortage in access to equipment, whether it's turbines or some other equipment. So, we have been notified, but to-date the projects have not been delayed, and so we are on track. We've continued construction through this time period. And so, as of now, everything is on track.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Good. What about contracts signed or are the other projects, third-party projects you are saying, are they going along also?

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

A

Yes. Everything is on track for this calendar year, yup.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. And then real quick on the dividends, obviously, the board decided the dividends well before we knew the seriousness of the COVID situation. Any chance, any metrics that they might be looking at here in the next couple quarters in terms of making a dividend change given the raise last quarter?

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

A

Yeah. I would suggest that there's no planned change to our dividend policy or strategy. Things would have to change very dramatically for there to be a change in that light. So, we have a board meeting next week. We'll be reviewing with them certainly – later this week rather we've got a board meeting, and so we'll, obviously, be talking with them about a range of scenarios. But none of those scenarios at this time contemplate any change to the dividend policy.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay, great. Thanks so much.

Operator: Our next question will come from Durgesh Chopra of Evercore ISI. Please go ahead.

Durgesh Chopra
Analyst, Evercore ISI

Q

Hey, good morning. Thanks for sneaking me here, and I appreciate the granularity in the slides as always. Just wanted to start with a quick clarification. I think I'm understanding this correctly, but in response to Steve's question you mentioned 10% decline. Is that across all classes? So the sensitivity of $0.03 to $0.04 EPS hit per month, that is based on the commercial and industrial 20% to 25%, that's what you're seeing as of March, but the 10% is across all classes, is that right?

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

A

Correct.

Durgesh Chopra
Analyst, Evercore ISI

Q

Okay, perfect. Thank you. And then just a quick follow-up. You mentioned you've previously been able to offset double-digit EPS headwinds through some of the cost mitigation efforts. Could you point to something in terms of what can you do? Are those things one-time in nature or could you take costs out of the business longer term? Any examples or any color would be helpful.

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

A

Well, Durgesh, thank you for asking. I've been waiting to share my story of the month. I'm just going to assume that's what you're asking me for, so here we go even in these times. So, in, fact I think this one might be the story of this era. We've discovered that we can work remotely. So let me just give you some numbers. So in an annual period, we typically spend about $10 million a year reimbursing mileage. We have a large geographic service area and people have felt compelled to be in person for meetings and events. Frankly, I'm the one who makes them. I like to see people, I like to be with people. So, I say, hey, come on out, be in person.

But based on this circumstance and the COVID-19, we've been forced to learn to use technology, and it's working actually. And it's sort of a triple bottom line story of the month, because, first of all, people are safer certainly at this time because of COVID, but also minimizing mileage and driving reduces the risk of a vehicle accident. The planet is better off with less vehicle emissions and our profits are better because the costs are lower. So, we can do video calls. They work.

You know, I used to avoid the face-to-face video calls. We just do the dial-in and they're not the same and we've learned. And frankly, I think there's a business to be had for the Judy Jetson masks. And if you're too young to know what I'm talking about, just YouTube Judy Jetson mask. There is an opportunity, because sometimes we don't want to see our messy hair. And without the salons being open, everyone's hair is looking pretty messy and the dogs barking. But the truth be told, we've set this big ambition that we come together by staying apart and we're finding our culture is getting activated. People are actually coming closer. It's very interesting time.

But on the fundamental cost, $10 million in mileage you can bet we're going to be reimbursing less than that. There's other things that we do on the waste elimination. We've got a host, as I said, 1,254 projects, some of it is shortening our, what's called, non-premise time. When a crew goes to a service center, shows up to pick up materials, and then reports to the job site, there can be an hour there that is considered non-premise time, that's expensed. Their capital work doesn't commence until they start on the job site.

So the fact that we can get people to job sites more quickly, and we're redesigning our supply chain, so the materials can be available on site as opposed to people having to come to service centers is actually another great example of how this current circumstance is creating innovation, but permanent waste elimination that we can deploy in years to come.

Durgesh Chopra
Analyst, Evercore ISI
Q

Got it. Thank you. Yes, it definitely did. Thank you so much. I appreciate it.

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

Welcome.

Operator: Our next question today will come from Ryan Levine of Citi. Please go ahead.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.
Q

Good morning.

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

Good morning, Ryan.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.
Q

Do any of your O&M or CapEx contracts have force majeure contract provisions that are impacted by this pandemic?

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

A

Well, as I mentioned, we've had force majeure notices on some of our large renewable projects, but they're not affecting the timing or the outcome of those projects at this time.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

There is no impact on O&M contracts or any of the other contracts?

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

A

We've not had any notifications of that on our other contracts.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then, can you provide more color on the potential items included in the cost reduction initiative flex that you highlighted, and what portion are more temporary in nature versus long-term?

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

A

Yeah. So, a hiring freeze is, obviously, temporary, but things like – we started using technology and we were starting this before the pandemic. That's why I'm so grateful that our CE Way has been in place now for several years, because we've been deploying capabilities to our top waste opportunities. So here's a great example. We've been, what's called, auto dispatching storm crews. So, in the past, we would wait for – call it a year ago, we would have a customer call us, notify that their power was out. We would start to aggregate all that data in a dispatch center, and then a person would determine, okay, we have this many outages on this circuit and they would schedule a crew.

Well, now we have automated all of that. We've used our digital capabilities, our IT team, and our engineering and operations teams have been working together and agile teams actually all across the company, but this is one example of how they now auto-dispatch storm crews it saves 30 minutes on an outage per customer. And it eliminates the actual work of doing the dispatching, because it's done by a computer. It's more accurate and it's cheaper. So it's just things like that all across the company.

I think it's tempting for management teams to want to have big line items. We're a believer in the CE Way and our continuous improvement mindset says, little line items all across the company are going to be more sustainable and have grander benefits in the long run to both the experience for customers, as well as our fundamental cost structure.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. And then last question for me, what are you seeing in terms of working capital fluctuations in light of the directionally 10% load decline post COVID-19? Are there any meaningful fluctuations that impact your financing plan?

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

Rejji, you want to talk through the financing plan a little bit?

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

Yeah, happy to. Yeah. So, the quick answer is, working capital actually has been fairly smooth or, I'll just say, aligning with plan. As mentioned, we have no CP outstanding and generally that would be, I'll say, a supplemental source of financing if we saw unpredictable working capital swings. But we obviously have been able to manage the working capital volatility to-date, and there hasn't been much of that. And so, we have not seen at this point any really material changes in working capital.

But, as Patti highlighted earlier, there is a bit of a lag when it comes to receivables aging, and so we'll continue to keep an eye on that. We, obviously, are very flush from a cash perspective, as evidenced by our proactive financings that we did at the end of the quarter. So, a little over $700 million in cash, and that plus our revolving facility capacity gets us about $2.3 billion net liquidity position. So, we certainly feel like we have enough dry powder to manage any future volatility, but haven't seen a whole lot to-date, to be honest.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.
Q

Thank you.

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, Ryan.

Operator: And our next question today will come 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.

David Fishman
Analyst, Goldman Sachs & Co. LLC
Q

Thanks for taking my question. Just wanted to go back to the C&I demand numbers again. I think I remember that there was a large customer kind of pre-COVID that sort of already was a bit of a drag on your kind of year-on-year comparables. Am I remembering that correctly and kind of how much of that 20% to 25% does that customer represent that already known?

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

That is correct. We have one large customer who had some contracts bought-out at the end – actually partway through last year, and so they're reflected in last year's sales and this year's sales. And they're operating now, so they are actually essential, which is good, but they are at diminished load. So they are a portion of that 20% to 25%.

David Fishman
Analyst, Goldman Sachs & Co. LLC
Q

Okay. But some of that then would already have been planned for when you were thinking about your 2020 guidance...

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

That's true.

David Fishman
Analyst, Goldman Sachs & Co. LLC
Q

...heading into the year?

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

We factored that into our plan for this year.

David Fishman
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And then, not to, I guess, beat a dead horse here, but just on the flex range, when we think about the $0.10 to $0.15 that you guys have talked about historically speaking, now I know there's a lot of unknowns going forward with 2020 but when you kind of achieved those levels, those were more or less to kind of meet your earnings target specifically, like you had a certain amount of negative in that year, and then you flex to meet that, and that's kind of what you're illustrating for us here today.

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

That's right, that's right. And it's been true on the other side as well that when we've had favorability, we've pulled in costs and prepared for the next year. And so the thing that I don't want lost on anyone is that we are always preparing, not just for this quarter or this year, but for years to come. And that's what has made us so reliable at delivering and doing exactly what we said we're going to do. And so that flex has upside and downside. That's why slide 6 shows that range of up and down, and obviously this is a down-year and we are doing everything we can to leverage our skills and capability of adapting in that range.

David Fishman
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thank you, Patti. Those were my questions; I hope everyone's family is safe and healthy.

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

A

Thank you, David. You too.

Operator: Our next question will come from Paul Patterson of Glenrock Associates. Please go ahead.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Hey, good morning.

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

A

Good morning, Paul.

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

A

Good morning.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

So just, first of all, congratulations on the Supreme Court victory. I'm assuming that's it for the state. But is there any other appeal or anything going on at the federal level or are we finally finished with this proceeding?

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

A

There's one other aspect to the local clearing requirement that is still being determined, and it's a very procedural element. But fundamentally, reconfirming that the Public Service Commission has the authority to establish a local clearing requirement was a very important outcome. They have returned then the procedures back to the MPSC for implementation. So, it still needs to be implemented I guess, I should say, but the order was very important and the ruling by the Supreme Court was very important.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Okay, great. And then with respect to the bill payment trends that people have been asking about, I'm sorry if I missed this. But in terms of – say technically what's uncollectible or bad debt or anything like that, but just in general, do you have any – if you gave it, I apologize for missing it, but sort of just what the cadence has been in terms of people paying, let's say, for April? Like, for instance, we're hearing – I saw one statistic that one-third of people didn't – this is nationwide, didn't they pay their rent for April, that they were sort of late paying their April rent in the first few weeks. Do you have any numbers sort of like that for what you're sort of experiencing there on the ground?

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

A

Yeah, not yet, but we do know we do have call volume from business and residential customers asking for what we would call grades and extension of payment plans, and so we are doing that. As we talk to these businesses, they typically have three big concerns. One is rent, as you've described; two is payroll; three is utilities. And so, we've been able to be a source of support to them and we feel comfortable extending those payment plans, but that doesn't necessarily then translate into an uncollectible, particularly for our business customers.

And we've got some really good community action agencies and support resources for residential customers that can help them make their payments on time in the short run as well. So, I would suggest that our forecast isn't good yet. There's more to come and more to learn and certainly by Q2, we'll have a much better eye on being able to quantify that.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Okay. And then just finally on Enterprises, the $0.04 benefit, and I apologize again if I just missed this, but what drove that?

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

A

Rejji, you want talk through the Enterprises quarter?

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

A

Happy to. Yeah. So, Paul, it's a combination of two things. So, one, it was just the absence of an outage in Q1. So, Filer City did an outage last year and so there was the absence of that. And then just good cost performance at Enterprises, and so that's really what drove the $0.04 positive variance.

Paul Patterson
Analyst, Glenrock Associates LLC

Q

Okay, great. Thanks so much. Hang in there.

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

A

Thank you.

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

A

Thanks, Paul. You too.

Operator: Ladies and gentlemen, this will conclude our question-and-answer session. At this time, 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.

Thank you, Alyson. And again, thank you, everyone, for joining us today on our call. Please continue to stay safe and be well, and we really look forward to seeing you face-to-face when we can. We miss you all. Thanks so much.

Operator: The conference has now concluded. We thank you for attending today's presentation and you may now disconnect your lines.