

04-Feb-2021

# CMS Energy Corp. (CMS)

Q4 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Srikanth Maddipati**

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

**Rejji P. Hayes**

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

**Garrick J. Rochow**

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

---

## OTHER PARTICIPANTS

**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

**Constantine Lednev**

*Analyst, Guggenheim Securities LLC*

**Travis Miller**

*Analyst, Morningstar, Inc. (Research)*

**Michael Weinstein**

*Analyst, Credit Suisse Securities (USA) LLC*

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

**Julien Dumoulin-Smith**

*Analyst, Bank of America Merrill Lynch*

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

**Durgesh Chopra**

*Analyst, Evercore ISI*

**Sophie Karp**

*Analyst, KeyBanc Capital Markets, Inc.*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone, and welcome to the CMS Energy Fourth Quarter 2020 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 February 11. The 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.*

Thank you, Rocco. Good morning, everyone, and thank you for joining us today. With me are Garrick Rochow, President and Chief Executive Officer, and Rejji Hayes, Executive Vice President and Chief Financial Officer. This presentation contains forward-looking statements, which are subject to risks and uncertainties. Please refer to our SEC filings for more information regarding the risks and other factors that could cause our actual results to differ

materially. This presentation also includes non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in the appendix and posted on our website.

Now, I'll turn the call over to Garrick.

---

## Garrick J. Rochow

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

Thank you, Sri. And thank you, everyone, for joining us today. I've had the pleasure of meeting many of you over the past couple of months as I've transitioned into the CEO role. I'm excited to be hosting my first earnings call and sharing yet another year of consistent industry-leading financial performance.

Before I discuss our year-end results and our updated five-year capital investment plan, I want to take a moment to reiterate our simple but powerful investment thesis. While simple to put on paper, it's not easy to replicate and that is what sets us apart. It starts with our industry-leading commitments to clean energy. Our net zero methane and carbon goals require a significant investment as we update our expansive electric and gas systems to achieve decarbonization.

These investment opportunities are supported by constructive energy legislation as well as alignment with our Commission and the MPSC staff. This strong regulatory and legislative framework is why Michigan is consistently ranked a top tier regulatory jurisdiction. But investment opportunities and a supportive regulatory environment are not enough. Our focus on affordability is critical, so, our customers can afford these investments.

Now, I've been with the company for 18 years, much of it in operations. Over that time, we've demonstrated our ability to consistently manage costs as we've invested in the safety and reliability of our systems while improving customer service. That ability to manage costs is not driven from the top down but from the bottom up. It's our 8,500 coworkers who are committed to excellence, delivering the highest value to our customers at the lowest cost possible. This is embedded in our culture and was built in partnership with our union over the last two decades. These unique attributes to the CMS story are what allow us to deliver for our customers and you, our investors.

Our adjusted EPS growth of 6% to 8% combined with our dividend provides a premium total shareholder return of 9% to 11%. Our ability to deliver this growth each and every year is something we are uniquely capable of doing. Regardless of weather, a global pandemic, who's leading our state, our Commission or our company, we have delivered consistent, industry-leading result year in and year out. 2020 proved this. 2021 will be no different. In 2020, we delivered adjusted earnings per share of \$2.67, up 7% from 2019 and achieved operating cash flow of almost \$2 billion, excluding \$700 million of voluntary pension contributions in 2020. Today, we're raising our adjusted EPS guidance for 2021 by a penny to \$2.83 to \$2.87 with a focus on the midpoint. This reflects annual growth of 6% to 8% from our 2020 results.

Last month, we announced our 15th dividend increase in as many years, \$1.74 per share, up 7% from the prior year. We continue to target long-term annual earnings and dividend per share growth of 6% to 8% again with a focus on the midpoint. Today, we're also increasing our five-year capital plan to \$13.2 billion, up \$1 billion from our prior plan. 18 consecutive years of industry-leading financial performance. I'll let that sit with you for a moment.

I'm pleased with our financial performance, but equally important is our commitment to the triple bottom line. We balance everything we do for our coworkers, customers and the communities we serve, our planet and our investors as demonstrated on slide 6.

2020. 2020 was a tough year for everyone. The global pandemic impacted all of us emotionally, physically and financially. Through it all, I am proud of the work done by our coworkers. We were able to provide over \$80 million of support to our customers and communities in 2020 through support programs, low income assistance, donations to foundations, and reinvestments to improve safety and reliability.

We focused our efforts on COVID relief for residential and small business customers, payment forgiveness, as well as enhanced support in the area of diversity, equity and inclusion. Despite changing our work practices as a result of the pandemic, we maintained first quartile employee engagement, achieved first quartile customer experience, and attracted 126 megawatts of new load to our state, which brings with it significant investment and over 4,000 new jobs.

From a planet perspective, we continue to lead the clean energy transition. We added over 800 megawatts of new wind and are executing on 300 megawatts of new solar, the first tranche of our integrated resource plan. Furthering our commitment, over \$700 million of investments were made to advance our clean energy transition. Additionally, our demand response and energy efficiency programs continue to save our customers money, reduce carbon, and earn an incentive. And last but certainly not least, we finished the year with more than \$100 million in cost savings driven by the CE Way.

Many of you've asked about my commitment to the CE Way. The light blue arrow at the bottom of the slide and my experience leading this operating system over the past five years should be a strong signal. I'll tell you this, we are positioned well. But there is still more opportunity. Through the CE Way, we will continue to improve reliability, reduce waste and deliver better customer service. And that is just the tip of the iceberg. There are opportunities in every corner of the company to achieve excellence through the CE Way. My coworkers and I remain committed.

We will continue to lead the clean energy transition with support from our new five-year \$13.2 billion capital investment plan which translates to over 7% annual rate base growth, and focuses on enhancing the safety and reliability of our system as we move toward net zero carbon and methane emissions. In fact, 40% of our plan directly supports our clean energy transition and includes our renewable generation, electric distribution investments to support this generation, grid modernization, as well as programs like our main and vintage service replacement programs which reduce methane emissions.

In addition to our traditional rate base returns, our wind investments, renewable PPAs and demand-side resources are supported by regulatory incentives above and beyond our ROE. These incremental earnings mechanisms enhance our earned returns, and combined with our investments in clean energy are growing percentage of our earnings mix.

Our customers' ability to afford the investments in our system is complemented by our continued focus on cost savings. Over the last decade, we have reduced the utility bill as a percentage of the customer's wallet, and we continue to see further opportunity to reduce costs in the future. We have unique cost saving opportunities relative to peers and two above-market PPAs, Palisades and MCV, which will generate nearly \$140 million of power supply cost recovery savings. This, coupled with the future retirement of our remaining coal facilities, provides over \$200 million or 5% cost savings for our customers. These structural cost savings combined with the productivity we'll deliver through the CE Way will ensure we deliver on our capital plan and keep customer bills affordable.

Now, the great thing about the CE Way is it delivers more than cost savings. What makes us unique is our engaged coworkers. We value our best-in-sector employee engagement and our 8,500 coworkers who work

every day to deliver the best value for our customers. This engaged workforce has doubled productivity which has enabled us to consistently increase our capital plan without significantly increasing our workforce. Furthermore, we have never served our customers better as we've moved from the bottom quartile to top quartile, not just in the utility industry but across all industries.

Slide 9 serves as an excellent example of how our team leverages the CE Way to deliver on our triple bottom line. Our ability to deliver this level of excellence for our customers and investors is supported by Michigan's constructive regulatory environment. We benefit from a legislative and regulatory construct that supports our rate case proceedings and a statute that allows for financial incentives above and beyond current authorized ROE.

Michigan's regulatory jurisdiction has been ranked in the top tier since 2013. That's not by accident. It's a reflection of the hard work my coworkers do every day to earn the trust of our customers, policy makers, environmental groups and the MPSC staff. We are proud to have a Commission that demonstrates strong leadership with diverse backgrounds, which was enhanced with the appointment of Commissioner Peretick. We welcome Commissioner Peretick and look forward to working with her in the future.

Turning to slide 11, you'll note we have a light regulatory docket with no financially significant regulatory outcomes in 2021. With the approval of our Karn securitization and electric rate case in December of last year, we'll file our next electric rate case in the first quarter and our gas rate case in December of this year. Notably, we'll file our second iteration of our integrated resource plan in June. I'm sure many of you would like a sneak peek, but it's too early. We're in the midst of the modeling phase. You can be confident that this next iteration will continue to build on our industry-leading clean energy commitments, and we'll find ways to get cleaner, faster and incorporate storage and customer-driven solutions as they become more cost effective. Beyond that, we'll ask you to stay tuned until our second quarter earnings call where we'll provide more information after we've filed.

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

---

## Rejji P. Hayes

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

Thank you, Garrick and good morning, everyone. We're pleased to report our 2020 adjusted net income of \$764 million or \$2.67 per share, up 7% year-over-year off our 2019 actuals. And I'll briefly note that our adjusted EPS excludes select nonrecurring items previously discussed in our third quarter earnings call and enumerated in this morning's releases.

To elaborate on the key drivers of our year-end results, we realized increases in rate relief, net of investments, due to constructive orders in our recent gas and electric rate cases, strong performance in our Non-Utility segments and most notably, our historic company-wide cost reduction efforts led by the CE Way, which Garrick noted earlier. These positive factors were partially offset by mild weather and reinvestment or flex up back into the business.

We've talked in the past about our practice of "flexing up", which enables us to put financial upside to work in the second half of the year to pull ahead or commit to work to improve the safety and reliability of our gas and electric systems; to fund customer support programs, which was particularly important in 2020 given the effects of the pandemic; invest in coworker training programs, and derisk our financial plan in subsequent years. This tried and true approach benefits all stakeholders, which is the essence of the triple bottom line of people, planet and profit.

On slide 13, you'll note that we met our key financial objectives for the year. To avoid being repetitive with Garrick's earlier remarks, I'll just note that we invested \$2.3 billion of capital in our electric and gas infrastructure

to the benefit of customers, including investments in wind farms, which add approximately \$500 million of RPS-related rate base, which I'll remind you earns a premium return on equity of 10.7%.

I'll also note that our treasury team had a banner year, successfully raising approximately \$3.5 billion of cost-effective capital which includes roughly \$250 million of equity while navigating turbulent capital market conditions over the course of 2020. These efforts further strengthened our balance sheet to the benefit of customers and investors.

Turning the page to 2021, as mentioned, we are raising our 2021 adjusted earnings guidance to \$2.83 to \$2.87 per share, which implies 6% to 8% annual growth off our 2020 actuals. Unsurprisingly, the majority of our growth will be driven by the Utility, and I'll also note a modest level of anticipated upside at the Parent & Other segment in 2021 largely due to the absence of select non-operating flex items executed in 2020. All-in, we'll continue to target the midpoint of our consolidated EPS growth range of 7% at year-end, which is in excess of the sector average.

To elaborate on the glide path to achieve our 2021 EPS guidance range, as you'll note on the waterfall chart on slide 15, we'll plan for normal weather, which in this case amounts to \$0.06 per share of positive year-over-year variance given the mild winter weather experienced in 2020. Additionally, we anticipate \$0.41 of EPS pickup in 2021 attributable to rate relief, net of investment costs, largely driven by the orders received in the second half of 2020.

It is also worth noting that the magnitude of EPS impact here is in part due to the absence of an electric rate increase in 2020, which was a condition of our 2019 settlement agreement. While we do plan to file an electric case in Q1 of this year, as Garrick mentioned, the test year and economic impact for that case will commence in 2022.

As we look at our cost structure in 2021, you'll note approximately \$0.27 per share of negative variance attributable to incremental O&M approved in our recent rate cases to support key initiatives around safety, reliability, customer experience and decarbonization. Needless to say, we have underlying assumptions around productivity and waste elimination driven by the CE Way and will always endeavor to overachieve on those targets while delivering substantial value for our customers.

Lastly, we apply our usual conservative assumptions around sales, financings and other items. And I'll note that while the pandemic remains relatively uncontained, we are assuming a gradual return of weather-normalized load to pre-pandemic levels around mid-year. In the event the mass teleworking trend persists and/or we see an accelerated reopening of the Michigan economy, we could potentially see some upside from incremental residential and commercial margin. As always, we'll adapt to changing conditions and circumstances throughout the year to mitigate risks and increase the likelihood of meeting our operational and financial objectives.

We're often asked whether we can sustain our consistent industry-leading growth in the long-term given widespread concerns about economic conditions or potential changes in fiscal, energy and/or environmental policy. And our answer remains the same, irrespective of the circumstances, we view it as our job to do the worrying for you.

Our familiar EPS chart on slide 16 illustrates one of our key strengths, which is to identify and eliminate financial risk and capitalize on opportunities as they emerge to deliver additional benefits to customers while sustaining our financial success over the long term for investors. Each year provides a different fact pattern and we've always risen to the occasion. 2020 offered some unique challenges resulting from the pandemic and more familiar sources of risk in the form of mild winter weather. And as usual, we didn't make excuses, instead we offered

transparency, devised our course of action and counted on the perennial will of our 8,500 co-workers to deliver for our customers, the communities we serve, and for you, our investors.

To summarize our financial objectives in the near and long term, we expect 6% to 8% adjusted EPS and dividend growth and strong operating cash flow generation. From a balance sheet perspective, we continue to target solid investment grade credit ratings and will manage the key credit metrics accordingly. One item I'll note in this regard is that we have slightly modified our FFO-to-debt targets to align better with the various rating agency methodologies. Given the increase in our five-year capital plan, we anticipate annual equity needs of up to \$250 million in 2021 and beyond, which we are confident that we can comfortably raise through our equity-dribble program to minimize pricing risk.

And two additional items I'll mention with respect to our financial strength as we kick off 2021 that are not on the page but no less important are that we concluded 2020 with \$1.6 billion of net liquidity, which positions our balance sheet well as we execute our updated capital plan going forward. And we have fully funded benefit plans for the second year in a row due to proactive funding, the latter of which benefits roughly 3,000 of our active coworkers and 8,000 of our retirees. Our model has served and will continue to serve all stakeholders well. Our customers receive safe, reliable and clean energy at affordable prices, while our co-workers remain engaged, well-trained and cared for in our purpose-driven organization and, our investors benefit from consistent industry-leading financial performance.

To conclude my prepared remarks, on slide 18, we have refreshed our sensitivity analysis on key variables for your modeling assumptions. As you'll note, with reasonable planning assumptions, rate orders already in place and our track record of risk mitigation, the probability of large variances from our plan are minimized.

And with that, I'll hand it back to Garrick for some final comments before Q&A.

---

## **Garrick J. Rochow**

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

Thank you, Rejji. Our investment thesis remains simple but unique. It enables us to deliver for all our stakeholders, year in and year out. We remain committed to lead the clean energy transition, excellence through the CE Way and delivering a premium total shareholder return through continued capital investment that benefits the triple bottom line.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you very much, Garrick. The question-and-answer session will be conducted electronically. [Operator Instructions] Today's first question comes from Jeremy Tonet with JPMorgan. Please go ahead.

**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning.

**Garrick J. Rochow**

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

A

Good morning, Jeremy.

**Rejji P. Hayes**

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

A

Good morning.

**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Just want to start off I guess on renewables CapEx deployment. It seems like that stepped up a little bit there. And just wondering I guess your appetite or your vision of how you see that could progress over time. And just want to clarify as well, specifically on slide 22. When you talk about the clean energy generation there, how much of that is regulated versus the non-regulated spend? Thanks.

**Garrick J. Rochow**

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

A

Yeah. Thanks for your question. Let's just talk broadly about the regulatory build-out here of renewables and the like. So, first of all, we have industry-leading commitment, and I want to be clear about that. Net zero by 2040 is one of the best in the industry out there. And so, it's aggressive plan from a build-out perspective. In our current integrated resource plan, we have 1.1 gigawatts of solar that is part of the build-out with a broader plan of 6 gigawatts of solar. And in the course of this integrated resource plan is REV-2 which we'll file in June. We'll continue to advance our aggressive plans and our leadership in the clean energy transition.

And so, what you're picking up in our capital plan and that additional \$1 billion, you're right on the mark, Jeremy. There's more renewables to the tune of about \$200 million of additional solar and renewables in that plan. There's \$200 million of hydro, and that might be surprising for some, but that's the original renewable that's carbon-free. And if you think about our Ludington pumped storage facility, which is the largest – fourth largest in the world, it provides an important role in intermittency. There's \$300 million for electric reliability to improve service out there but also prepare the grid for the future. And then, the balance is made up of investments in our gas system to further decarbonize. And so, those are the important pieces.

When we think about our – on slide 22 specifically and the investments there, right now, our integrated resource plan is a 50%/50% split between purchase power agreement and build-own transfer. Now, it's a little better than 50%/50% split because there are our renewable energy plan commitments and we're building out wind to support that, so it's greater than 50%/50%. But let's talk about the 50%/50% for a minute. All those PPAs, we are one of



the few in the industry and certainly a leader in the industry to get a financial compensation mechanism associated with that and the rest come through build-own transfer. Now, as we think about our second IRP, we're going to take a strong look at what that mix looks like and what that will be for the future. And so, that'll be something we explore and grow and certainly will be part of our integrated resource plan for the future. Now, I'm going to pass it over to Rejji too because I know he has some additional thoughts to offer on this as well.

---

**Rejji P. Hayes**

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

A

Thank you, Garrick. Jeremy, the only thing I would offer in addition to all of Garrick's good comments and I don't know if this is an additional part of your question, but all of the capital spend that we have highlighted on this call, so the \$13.2 billion and the \$2.4 billion of clean energy generation you've seen on page 22, this is all for the regulated utility at Consumers Energy. So, all of the capital investment we're talking about is earmarked for the regulated utility.

---

**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

Q

That's very helpful. Thank you for clarifying that. And just want to turn to the balance sheet a little bit there I guess to see the equity you talked about, stepped up a little bit there on – up to \$250 million. And just wondering if you might be able provide more color if that's kind of ratable across years or if that could be kind of more or less in a given year. And is really the driver there just kind of the step up in CapEx that you see or any other color you could provide there would be great.

---

**Rejji P. Hayes**

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

A

Sure, Jeremy. It's – I'd say starting with the second part of your question first, it really is a ratable increase with the capital investment plan which obviously has increased by \$1 billion vintage-over-vintage. And so because of the capital plan at the utility increased by \$1 billion, we've had the equity needs increased roughly commensurate with that. And so, the prior plan as you know is about \$150 million per year run rate, and now, we're at \$250 million. Now, when you think about that distribution over the next five years, well, we may be opportunistic in some years and maybe around \$250 million, some years a little less. We'll look at where the market is and how receptive it is to our currency, and we'll look at the price of stock obviously. And I will just add for the first \$250 million that we're planning to do in 2021, we've already taken about 20% of that pricing risk off the table, with forwards we executed in the back half of 2020. And so, we'll be opportunistic. So I wouldn't say, oh, it's going to be a clean \$250 million each year, but that's the target and in some years a little more, some years a little less. And so when I say a little more, up to \$250 million is the ceiling and it may in some years be less than that just to be very clear.

---

**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

Q

That's super helpful. I'll stop there. Thank you.

---

**Rejji P. Hayes**

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

A

Thanks.

**Operator:** And our next question today comes from Shahriar Pourreza with Guggenheim Partners. Please go ahead.

**Constantine Lednev**

*Analyst, Guggenheim Securities LLC*

Q

Hi. Good morning and congrats on a constructive update. It's actually Constantine here for Shar. He sends his best.

**Rejji P. Hayes**

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

A

Hi, Constantine.

**Constantine Lednev**

*Analyst, Guggenheim Securities LLC*

Q

Hey. Just a quick one on kind of the clean energy mix for CMS that you've outlined some reductions in kind of coal and rate base. And Campbell is obviously still a decade away. Without kind of jumping into the IRP obviously, can you kind of talk about kind of the opportunity to move the retirements ahead? And any threshold that you kind of envision for kind of moving those dates around, especially as replacing the economics start to improve for that power.

**Garrick J. Rochow**

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

A

Yeah. Thanks for your question. We're in the process of our integrated resource plan. I call it 2.0 or REV-2 looking at that. And so, right now – and maybe we'll take a step back. Over the course, my crew had 12 coal plants. We're down to our remaining five, Karn 1 and Karn 2 and IRP 1.0 retirement of 2023. And right now, in this IRP for 2.0, we're looking at the potential for early acceleration, early retirement for Campbell 1 and 2. Right now, their date is 2031 and evaluating whether that pulls forward or not.

And so, that modeling is underway. There are a number of things we'd look at in that modeling, but it's all across our triple bottom line. So, we're looking at customer affordability. We're looking at the reliability of the grid. We're looking at impact of coworkers, obviously the benefit to the planet, but also the balance sheet and the impact from what's the remaining book value, the securitization impact and how does that play out on credit metrics and what is the capital build-out.

There's a variety of variables that go into that. But that is certainly something that's under consideration. Also, we put that in the context of what's going on with the Biden administration and some of the ambitions around that from the planet perspective which we support. And so, that also factors into our thinking on our coal plants.

**Constantine Lednev**

*Analyst, Guggenheim Securities LLC*

Q

Perfect. That's a very good color. And just shifting a little bit to kind of planning assumptions on kind of load growth. So, you've – and 2020 was obviously a little bit of a volatile year just in terms of kind of shift in the mix. And in your plan, kind of Rejji mentioned that you're kind of going back to normal by the end of 2021. Do you anticipate kind of residential load trends to play out similar to kind of how they have been and in general just being a little bit higher? And how does that impact kind of the need for O&M flex kind of through 2021 as you're guarding the recovery? Does it kind of reset to the baseline or is there a more return to normal O&M profile by the tail end of the year?

**Garrick J. Rochow**

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

A

Well, I'd start off with the big picture which is slide 16. And every year when there is work to do, we get after it and we flex our CE Way muscle and find savings opportunities and then we reinvest it. And so, again, we've positioned well for 2021 and that's the broad message, but I mean specifically from a sales perspective. Residential sales as we talked to in Q3 and still here in Q4 are a bit sticky as people are working from home and many schools are still virtual. But as we see this pandemic playing out, we anticipate that those will decline as you might expect as people go back to the traditional workplace and as kids return to school. Also, we expect the commercial sales to grow a little bit. Restaurants have been opened up here recently, some limited capacity, but those will continue to grow, particularly as the vaccine is more readily available and distributed across Michigan. And so, again, there's not aggressive assumptions in there. It's very conservative assumptions as you might expect from us and really returning to some pre-pandemic levels just as we shared.

From an O&M flex perspective, as I shared earlier, we feel like we're well positioned for 2021. We've done a lot of reinvestment for our customers at the end of the year towards – to the tune of \$0.18. It not only helps our customers and provides benefit, but it de-risks 2021. Now, the weather could be mild in the winter. It could be a cool summer. There's still pandemic out there. But rest assured what we do each and every year is we don't reset, we don't carve out, we get after it, and we flex that CE Way muscle and deliver. And so, no matter what the year throws at us, I'm prepared. We're prepared as a team. And I'm confident in the guidance we've provided.

**Constantine Lednev**

*Analyst, Guggenheim Securities LLC*

Q

Thanks, Garrick. That was wonderful, and I'll jump back in queue.

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

**Michael Weinstein**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning, guys.

**Garrick J. Rochow**

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

A

Hi, Michael.

**Michael Weinstein**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey. Just thinking about the IRP filing that's coming up, does the \$250 million of equity already contemplate sort of the range of possible things you're thinking of in that filing or should we expect to see some changes to the equity needs as a result of the plan?

**Rejji P. Hayes**

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

A

Yeah. Michael, this is Rejji. I'll just say that the equity issuance needs that we have laid out are reflective of \$13.2 billion capital plan, and that has some IRP-related capital investments within it because remember we're still executing on the first tranche of the 1.1 gigawatts of solar that were provided in the IRP that was approved in June of 2019. And so, there's some of that into the outer years of this plan. And so, that's what that equity will

support. We have not been too speculative as to what will come out of IRP REV-2.0, and we'll see where the outcomes take us. But remember, it's a 10-month – potentially 12-month process. So, if we file in mid-2021 as planned, we'll get an outcome around mid-2022. And that's a three-year forward approval. So, my sense is you'll see more of the results of that reflected in the next vintage of our five-year plan, which we'll roll out obviously in Q1 of next year. And so for now, we're comfortable with a \$250 million per year of equity funding this \$13.2 billion plan.

---

**Michael Weinstein**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Makes sense. And it's an approval that comes out of this for three years, right? Is there – could you comment a little bit about the appetite in Michigan or the legality in Michigan of a multi-year type settlement for rates that would coincide with the IRP of three years? I'm just wondering if there's any possibility there – and also the appetite of the company for that kind of thing. I know that in the past, you guys have been very happy with the way the annual rate cases go. Just wondering what the prospects are for something like that.

---

**Garrick J. Rochow**

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

A

We're still – our approach is still to go with an annual rate case approach for a couple of reasons. One, as we work our CE Way and we find opportunities for savings, it provides opportunity to give that back to our customers, and that creates headroom which allows for our aggressive capital investment plans. And so, this is the strategy that works for us. It works for our Commission and our commissioners. And we'll continue on that path for some time.

---

**Michael Weinstein**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Right. There's nothing legally – it's not legally blocking that type of outcome [indiscernible] (00:37:00) allowed in Michigan to have a multi-year rate plan?

---

**Garrick J. Rochow**

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

A

No, there's nothing legally that's blocking it. And we've explored it at times and – but again, we feel this is the best option for our strategy – the annual rate case.

---

**Michael Weinstein**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. Thank you very much. That's all I got.

---

**Operator:** Our next question today comes from Julien Dumoulin-Smith with Bank of America. Please go ahead.

---

**Julien Dumoulin-Smith**

*Analyst, Bank of America Merrill Lynch*

Q

Hey. Good morning, team. Thanks for the opportunity, and congrats, Garrick. I wanted to follow up here on the question on the IRP and weaving that into the CapEx update here. And I know listen, we're pretty early on. But I wanted to understand clearly if you look at the slide, your, shall we say, remaining large coal plant on Campbell, you've already shifted a little bit some of the timeline here. When you say that next year we could get an update on the five-year plan, obviously, as one larger plant that's out there, it's got a pretty long-dated retirement. I mean

is there a chance that we could see that in the five-year window and could that impact the five-year CapEx? I just want to clarify.

And then also can you clarify – I know you guys are raising CapEx here on clean energy. I just want to make sure that does not contemplate anything about any IRP outcomes to be extra clear about that.

---

**Garrick J. Rochow**

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

A

Julien, thanks for your question. I think it's going to feel like a little bit of reiteration for me on this answer. But we've got an aggressive plan, it's net zero by 2040. And obviously, we're looking at the potential to accelerate part of that plan with Campbell 1 and 2 as part of this plan. But we're also – in the broader context of the Biden administration in the 2035 and even our governor's goals within the state of Michigan, we're also considering what does that mean and what does that look like.

And so, right now, Campbell 3 is at 2039. And so we will continue to take a look at what it means for Campbell 3. But again, there's a lot that goes into this modeling. And there's a ton of analysis that needs to go into this. I mean in addition to what I shared earlier, we're looking at what is the cost of renewables out in the future. We want to feather in those renewables over time to take advantage of the costs as those costs come down. We want to take a look at storage. Right now, storage is not at the right price. And so, how does that storage come in and how do we feather that in over time? Because if we go too fast in this, there's going to be risk from a reliability perspective. And frankly, when you get out to the end part of that plan, it counts on – that last 8%, it counts on technology in terms of carbon capture and carbon sequestration to make up the balance.

And so, important part of this is making sure that we also not only decarbonize, but we ensure affordability and we ensure reliability, both affordability – and I think we can answer all three. It's just that we have to pace it and allow technology. And so, when it comes to the Biden administration, not only we'll see a mass but our industry will push in for more R&D and more technology advancements to be able to have the aspirations and meet the aspirations that the new administration is putting out, which frankly we support from a planet perspective. And so, I'll offer that in terms of the plan.

And then, I know Rejji has some thoughts on this too. So, Rejji.

---

**Rejji P. Hayes**

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

A

Yeah. Julien, the only thing I'll add is there are two old sayings or a couple of old sayings with respect to the CMS story over time and they both precede me and Garrick, but they still are true to this day. One, we plan conservative and no big bets. And so, in this plan we've rolled out, we have not made any major presumptions around what will be in IRP 2.0. And so, that's not flowing through this 2021 through 2025 plan. And in fact, the components, as Garrick highlighted earlier, you got a little bit of, call it, just south of \$400 million of RPS-related spend that's just still ticking through for some of the wind investments that we're making. About \$1.5 billion related to the IRP. And again, it's just execution on the solar just out another year. And then, Ludington on the hydro side, which Garrick again mentioned earlier. So, this is all just incremental blocking and tackling. And again, we do not swing for the fences when it comes to financial planning. And when it comes to regulatory approaches, we just do not make big bets. So, it's a very conservative plan, and we think it's highly executable.

---

**Julien Dumoulin-Smith**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. Excellent. Maybe, Rejji, if I can stick with you super quick. Clarified this from your earlier comments and apologies if I misheard it, what's the order of magnitude of the range that's associated with the residential sales scenario to the upside that you're talking about?

**Rejji P. Hayes**

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

A

Yeah.

**Julien Dumoulin-Smith**

*Analyst, Bank of America Merrill Lynch*

Q

If you can put...

**Rejji P. Hayes**

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

A

Yeah. We have our sensitivities, Julien, as you know on slide 18, if memory serves me. So, you can see what incremental residential would look like and we've shown it on annual basis. And it changes a little bit each year with regulatory outcomes. But a 1% change in the context of 2021 is worth about \$0.04 per share on an annualized basis. And we're assuming fairly conservatively, as Garrick mentioned, that we'll get pretty close to pre-pandemic residential around midyear. And so, we're showing just year-over-year a little bit of a decline in residential again taking back to pre-pandemic levels. So, if we're a 1% – if there's surprise to the upside to the tune of 1%, that's worth about \$0.04 per share on an annualized basis. And I'll let your modeling assumptions go where they will, but that's generally the sensitivity.

**Julien Dumoulin-Smith**

*Analyst, Bank of America Merrill Lynch*

Q

Right. Okay. Excellent. So, 1% is kind of the order of magnitude and the sensitivity.

**Rejji P. Hayes**

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

A

Well, no, to be clear that's the sensitivity. I wouldn't offer any ceiling for you as to where that could go because as we said in the past, the mass teleworking trend, that may not – I don't think that's going to be a fad. I think a number of companies have said very publicly, and we've heard also offline anecdotally, that a number of companies are going to sustain some level of mass teleworking going forward. Now, again, we plan conservatively, so we're assuming you have that traditional negative correlation where as C&I comes back, you start to see residential come back down as people go to the workforce. But there is a good chance that we could see, who knows, 1%, 2% of upside in that. So again, I don't want to cap you, I just want to give you the sensitivity there.

**Julien Dumoulin-Smith**

*Analyst, Bank of America Merrill Lynch*

Q

Thank you [indiscernible] (00:43:23).

**Rejji P. Hayes**

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

A

Thanks.

**Garrick J. Rochow**

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

A

Thanks, Julien.

**Operator:** And the next question today comes from Durgesh Chopra with Evercore ISI. Please go ahead.

**Durgesh Chopra**

*Analyst, Evercore ISI*

Q

Hey. Good morning, team. Thank you for taking my question. Maybe just one tactical one real quick. Rejji, just can you clarify – you mentioned some rating agency adjustments to FFO-to-debt. What exactly are those? And I mean I guess, this is a presentation change or what were you trying to convey there?

**Rejji P. Hayes**

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

A

Yeah, sure, Durgesh. So, as you know, both Moody's and S&P and Fitch – I mean I'm sorry, not both, but all three rating agencies have tailored computations as it pertains to FFO-to-debt. So for example, Moody's ascribes a different level of equity credit for hybrids. We've been issuing those. S&P adds PPAs as parts of debt. Moody's includes securitization. So they all have their sort of bespoke ways in which they calculate FFO-to-debt. And so, what we're trying to highlight in our current guidance is that we're trying to show those tailored computations, so that we can maintain the solid investment grade credit ratings that's what we've historically targeted. And so, that kind of takes you to a mid-teens level. I think historically just to keep it simple, we've shown it on an unadjusted basis which gets you closer to the high teens. But we wanted to reflect the reality of what those tailored computations will lead you to. And so that's what we're effectively doing.

**Durgesh Chopra**

*Analyst, Evercore ISI*

Q

I see. Okay. So, it's no change to the absolute forecast number. That's just the adjustments all the credit rating agencies make and you'd sort of want to show that as relative to the bar or sort of the metrics they hold you accountable to?

**Rejji P. Hayes**

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

A

That's exactly right. So, our philosophy has not changed at all. We want to maintain solid investment grade credit ratings. And we think that mid-teens FFO to debt level, again albeit tailored for the rating agencies, should allow us to stay there.

**Durgesh Chopra**

*Analyst, Evercore ISI*

Q

Excellent. Okay. Thank you. Then just maybe just quick one for you Garrick and maybe not so quick. But just coming out of the EEI CEO meetings, I didn't get a chance to catch up with you. But just any thoughts that you can share, yours or other industry leaders, on the front – on the legislation front, what might come down from the Biden administration? What might it look like? What might the timeline look like? Just any color there would be appreciated.

**Garrick J. Rochow**

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

A

Yeah. Thanks for your question, Durgesh. So, I had the opportunity to listen to two industry events, separate industry events, John Kerry who's part of the Biden administration and part of the climate envoy as well as Gina McCarthy is also part of the Biden administration here and engaged on the planet ambitions. Furthermore, our relationship with former Governor Granholm and now likely lead of the Department of Energy here shortly and so, gives us a good context around some of these ambitions.

And what we've heard clearly is from a net zero perspective for all sectors by 2025 – I mean 2050 and for the electric sector by 2035 from a net zero perspective. And John Kerry was specific to say that it was an all-in approach and that also these ambitious – these were ambitious goals. But again, it was going to be about R&D type development and technology development to move it forward. And then he also offered the thought, this was not a regulatory approach because that takes too long and it would be incentives based on the market to spur and increase the market. And so, I believe we're well-positioned for that, again where we sit at 2040 to 2035, we can do that.

But again, the important piece really from an industry perspective is that we maintain the affordability, reliability and decarbonization. All three of those can be addressed. And that's going to require more R&D from a federal policy perspective. And so, one, we develop the technology but also moves at scale, so we can get the economics of it for all our customers. And so, that's an important piece. And we'll be leaning in from an industry perspective to shape that. Thanks for your question.

**Durgesh Chopra**

*Analyst, Evercore ISI*

Q

Excellent. Thank you. Appreciate the time.

**Operator:** And our next question today comes from Andrew Weisel with Scotiabank. Please go ahead.

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

Q

Hey. Thanks. Good morning, everyone.

**Garrick J. Rochow**

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

A

Good morning.

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

Q

First a question on the O&Ms. So, the \$100 million or so that you identified in 2020 was extremely impressive. Now that the year is closed, how – what are you thinking about that in terms of sustainability of that \$100 million? And then as a follow-up in the waterfall on page 15, can you just dig a little further into the negative \$0.27 of higher costs as far as how much of that is built into the new rates and how much is, what I would call, your typical annual CE Way cost savings?

**Garrick J. Rochow**

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

A



Yeah. So, from the \$100 million challenge and our work there, very successful, really over \$100 million, a very successful year. About 50% of that I'd put in the category of sustainable. So, let me talk about kind of the both buckets. And so, obviously, there has been some – just change in the way we do business this year. We're not flying places. We're not having hotel rooms stays. Those aren't sustainable. At some point, we'll go back and we'll do those things, right, as part of the business. But through the CE Way, we've done – 50% of it is clearly sustainable, and there are a number of actions that we've taken and which will continue to provide savings for our customers and create headroom as we go forward.

For, I want to give you an example and this is a longer term one, but there was also a value that was seen here in 2020. So, if I go back to 2015, we used to be about 6 million calls in our call center or contact center. In 2017 here – or I mean, in 2020 here, we did 2.7 million calls, a drop of 3 million calls over that time period. It's roughly \$3 dollars a call. And so – and I'll just give you one real example of the work and it speaks to the empowerment. What is unique is that we empower our coworkers to do this. And so, some people still pay by calling in and dialing in and putting their credit card information in. That's a subset of our customers. That team took that process, took 24 steps out of the process, moved it from 405 seconds to 305 seconds.

And so, as you imagine, a customer who wants to pay that way, the more steps they have, the longer it takes, the more they get frustrated, it turns into a defect and goes over to our call center. So, that's just one example of how we've improved the process, made it better for our customers, made it better for our coworkers, and then the cost falls out of that. And that's small. But imagine multiplying that by 8,500 people that are doing that type because they're empowered, that's a unique piece. And so, that's [indiscernible] (00:50:31), right? We're not going to go back and make that experience worse for our customers. That's the type of cost-savings opportunities. I can go through hundreds of them. And in fact, we have delivered on hundreds of them, and we'll continue to deliver on hundreds of them. And so, that's how I think about it, and there's more opportunity across our company to deliver on excellence from the CE Way.

Now, to your question, we're very successful in the midst of a pandemic and I think it speaks to our regulatory construct of getting gas settlement in 2020 and an electric rate case. And so, as we look at forward test years and we look at the work we're underway, we've got recovery in place. And so, when you see that uptick in O&M, much of that's for improved customer service. We increased – and it was awarded through the electric rate case outcome in December. Our forestry work, our tree trimming work with the number one cause of outages, we increased it by \$30 million. And so, that's already recovered and we're going forward with that work to improve customer service for all our customers. That's just one example of the increase that you note there. But again, big picture perspective. There's more opportunity. We continue to improve the way we do business, excellence through the CE Way.

---

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

Q

Okay. Sounds good. Thank you. Then one on the heating season and bills. Obviously, gas prices are up. You've got this bad economy. Can you give us some update on what you're seeing from customers in terms of their ability to pay their bills? And I'm sure it's always a concern, but how does it compare now versus in the past seasons? And maybe if you could dig a little deeper into some of the programs that you've got to help support the customers in need.

---

**Garrick J. Rochow**

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

A

Yeah. This has been one of our biggest years in support for our customers. So, let me talk about the numbers. So, when I look at current to 30 days, right now, our customer – 87% of our customers are in that bucket between

current and 30 days. So, that compares with 2019 which was 88% and – or 2017 – I'm sorry 2018 which was 89%. And so, there is an impact there. But as you see, it's pretty light in terms of what is kind of our historical receivables to 30 days.

And really we believe that's by design. One, we work closely with commissioners and made sure that, one, we didn't have a mandatory moratorium on shut-offs. It's been voluntary. We work closely with the Commission to do that. We've put – invested a number of dollars in both payment forgiveness as well as foundation help, specifically \$15 million in 2020. We put another \$24 million into our foundation which has also started to provide some of that benefit in 2021. And so, we continue to increase that work. In fact, I was on the phone with the attorney general's office this week and we're looking at how can we work together on this issue to do even more in 2021. And so, there are a variety of ways we've helped out those particularly in need during this time and we will continue through the course of the pandemic.

I'm going to offer one more thing, particularly around Michigan, because we're in the midst of this pandemic. But I think there is a lot of bright things that are occurring both from a COVID perspective but also Michigan's economy perspective. One, we've got great distribution of the vaccine. And if you look at our numbers, the state of Michigan has improved in that performance. And so, we've seen restaurants open. We've seen this movement of kids going back to school. That's already underway. But if I even take a bigger picture perspective and look at some of the economic things that I've seen here in Michigan, I sit on two economic development boards, 126 megawatts of new load, \$2.5 billion of investment for 4,000 new jobs. That's not just a highlight from this year. If I look back in the last three to four years, it's been very similar to that.

And if you go to a place like Kalamazoo, Michigan, this is where they manufacture the vaccine for Pfizer. That place is going gangbusters. And all the industries that support that are going gangbusters. Many people paint us as the automotive state. We truly have an automotive background which is rich, but we're one of the leading states in the growth of life sciences like we see at Pfizer and other places. And so, although we're in the midst of a pandemic, and there certainly we need to be sensitive about those that are low income and are working through that. And we're doing our efforts there. I'm also optimistic about what Michigan offers in the growth that I've seen here over the last four, five years.

---

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

Q

All right.

---

**Garrick J. Rochow**

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

A

Thank you.

---

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

Q

That sounds great. If I could squeeze one last one just to confirm, you rolled forward the five-year CapEx, but the 10-year plan of \$25 billion with \$3 billion to \$4 billion of upside, that's just a reiteration, right? That's not meant to be a roll forward? Am I right that that won't be updated until after the IRP is done in a year and a half or so?

---

**Garrick J. Rochow**

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

A

That's correct. It's \$25 billion with \$3 billion to \$4 billion opportunity, and if those events warrant it, we'll make adjustments on it.

**Andrew Weisel**

*Analyst, Scotia Howard Weil*

Q

Okay. Thanks so much.

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

**Travis Miller**

*Analyst, Morningstar, Inc. (Research)*

Q

Thank you. Good morning.

**Rejji P. Hayes**

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

A

Good morning, Travis.

**Travis Miller**

*Analyst, Morningstar, Inc. (Research)*

Q

When you look at the rate case outcome from last year, what are some of the pluses and minuses that you saw, the wins or losses that you might want to address in the next? I know you're not going to get into specifics, but general pluses and minuses that you might want to address next year or this year rather.

**Garrick J. Rochow**

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

A

Well, one thing I spoke to the forestry outcome. That's going to be a great improvement. And again, the number one cause of outages in our state is tree trimming. And so that's a big lift. We've got to – we've done a lot of great work on electric capital. And we made a great case and received a good portion of our electric capital and investments that will prepare the grid for the future from a renewable perspective as well as also improved reliability on electric grid.

We got some good outcomes in the distributed generation and our approach to that, which reduces the subsidy that's paid from our customers. And furthermore, our – we haven't spoken much about electric vehicles, but our Power MI fleet which is – where I think there's a great opportunity in electric vehicles, that's a space where we got approval for. And so – and there's a whole host of other positives that it'd offer in there.

From an opportunity perspective and we do see this as an opportunity perspective. We can do more work to justify our capital plans particularly from a facilities perspective and a fleet perspective. We're a little short of our expectations there. And that's an area where we can build out better business cases and get better outcomes.

I also think there's a better opportunity to have our Commission not go look at historical five-year IT because when – the IT and what we invest in that work with how fast that is changing, we do a historical look. It doesn't provide the right amount of O&M you need. And so there's more work we need to do with our staff – with the staff at the MPSC and with the Commission to make a better case for O&M related to IT investments. And so, those are a couple examples of things that we need to strengthen.

And I'll pass it over to Rejji. I know Rejji has some thoughts as well.

**Rejji P. Hayes**

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

A

Hey, Travis. The only thing I would add to Garrick's good comments is that we did see in the electric rate case a modest degradation in equity thickness. And so, when you take into account the deferred tax flowback, it's only about 40 basis points of rate making equity thickness reduction. So, again, modest level of degradation. But at the end of the day, we're still – we're now two, three years beyond tax reform, and balance sheet and cash flow generative effects of tax reform are very real. And so, we would like to see that equity thickness accrete some to offset the effects of that. And so, again, to Garrick's point, the onus is on us to continue to make the compelling case that equity thickness at worst should stay where it is today, but ideally accrete some, and we've seen other jurisdictions do that. So, we'll try to make that case better in subsequent cases.

**Travis Miller**

*Analyst, Morningstar, Inc. (Research)*

Q

Okay. That's great. Appreciate that. And then, real quick, you mentioned the EV program. If we think about a scale, let's say, EV sales doubled over the assumptions that are in that – in your program, what kind of CapEx does that mean? Is it minimal? Is it a lot? Kind of think about that scale on the EV side.

**Garrick J. Rochow**

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

A

Yeah. So, what I'd offer and I mean this is really a preliminary piece here is, we have nice scalable programs on the fleet side and the residential side. They're going to continue to grow as electric vehicle grows. And I'd put a level out there about [ph] \$150 (01:00:01) just as an early marker. And I think what is the important key about this is fleets.

And I'm really excited about what came out of the electric rate case because we're going to offer a concierge service to help businesses make the choice. That'll be a big difference in how this moves because some of these fleets when you have to expand by 2 to 3 to 4 megawatts, you're talking about transformers and substations and other upgrades associated with that. And so, depending on the fleet mix is really – it's an important variable in figuring out what that capital build-out looks like.

As GM announced here, I think it was about a week and a half ago, there's an inflection point between when it makes sense to be electric vehicle fleet for some of your trucking versus going to hydrogen. And I think that point right there is an important point that we need to understand a bit more and we're working to do that. And that's the importance of this fleet program we got in the last electric rate case. And we'll see more of that grow and be able to better pinpoint our capital investment opportunities.

And Rejji, go ahead on that one. I know you got more to add.

**Rejji P. Hayes**

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

A

Yeah, the only thing I would add is just – it also just depends on customer or end user behavior at the end of the day as well. And so, part of the Power Michigan Drive program that we put in place, an element of that is really to educate customers on when to charge and ideally charging off-peak to get better utilization out of existing assets. And then there are economic incentives that we're trying to provide as part of that. But if EV owners feel compelled, and this is more on the residential side, to charge during peak periods, well, that could have

implications on the electric infrastructure as well as supply needs that we may have which would have a direct impact on capital. And so, again we've talked a lot about shaving the peak. And so even though that may lead to additional capital investment opportunities, we think that's suboptimal in terms of where to put the best dollar longer term. And so, I think a lot of this will also be dictated on EV owner behavior.

**Travis Miller**

*Analyst, Morningstar, Inc. (Research)*

Q

Okay. Great. That's very helpful. Appreciate all the thoughts.

**Garrick J. Rochow**

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

A

Thanks for your question, Travis.

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

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

Q

Good morning. Thank you for squeezing me in here.

**Garrick J. Rochow**

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

A

Thanks, David.

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

Q

So, we've talked a little bit about the renewable and the electric side. But I'm just curious a little bit for more color on the net zero methane by 2030 on the natural gas kind of side of business and how CMS needs to invest to achieve that kind of rapid level of decarbonization on the gas side. It just seems kind of like over the past three years the five-year plan's more or less been around \$5 billion, a little bit more this time than the 10-year plans around \$10 billion with little bit upside. But is that the run rate you need in order to get – to reach net zero by 2030 with some RNG mixed in or is there something else that maybe we should be looking for that might lead to an accelerating reduction in methane over time, whether it's the first five or next five years?

**Garrick J. Rochow**

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

A

I love this question, David. Next weekend here or this coming weekend, I should say, the next couple of days, it's going to be zero and negative one and one here in Michigan. And you know what, I have an electric heat pump at home. And I'll tell you what, it does not keep up. And so I've got a supplement with gas to be able to keep my house warm. And in fact, 75% of Michigan's residents count on natural gas. And so I am so glad you asked that question because I think it's really important when we think about decarbonization that we're thinking not only about the electric but the gas business. And that's exactly what we're doing.

And so, we do have a 10-year plan as you pointed out to get to net zero by 2030. These investments which are represented in our five-year plan and those in our 10-year, which we'll have the opportunity to grow as we move forward, are exactly what delivers that net zero. We invest and taken out old metal. And old materials out there, we replace it with plastic across our distribution system which provides for safety. That is so critical in our gas

business. And we continue to maintain reliability, affordability and decarbonization because you can do all across that. Also within that plan, you add a little bit of renewable natural gas. We have some on our system. We're going to add a little bit more renewable natural gas. That'll help decarbonize that stream. That will get us to net zero methane by 2030.

Now, I'll tell you what, there's more opportunity to decarbonize natural gas. We've got energy efficiency programs that we have ran for 10-plus years, which are great. It's a win for our customers. It saves them money. We get incentive on it and it helps the planet. All the above win-win-win. We have the ability to expand those programs on our gas business, and you can think about the technology in the home, in the home envelope and the equipment in the home to further decarbonize. And then, if you want a belts and suspenders, we can also talk about hydrogen. And we spent a lot of time in the use cases around hydrogen. I won't go through them all now because I'm getting away from your questions. But yes, that investment spend right there and we have a little bit more opportunity in future cases we'll weave in there. We'll deliver a net methane 2030 target.

---

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Thank you. Very helpful. And just one quick follow-up on that one. So, the RNG that you'd be adding into this system, that's just mostly the tariff base, right? You would just pretty much be taking RNG sources that are kind of separately owned and maybe having an additional charge associated with the RNG kind of when it reaches the customers or how would that work with the ownership and kind of supply dynamic?

---

**Garrick J. Rochow**

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

A

Yeah. So, we'd look to put it on our system and have it be part of our gas supply cost recovery efforts there, and that will be work we'll do. We've got some on our system, but as we add more, we'll look at different opportunities. I think there's opportunities, too, to think about individual customers who have a specific renewable natural gas need as part of their sustainability targets. And so, I think there's customer programs we would consider as well.

---

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. And then, just one more if I can on regulation. I think as part of the last electric rate case, the MPSC had mentioned looking at performance-based metrics for performance-based rate making – I know obviously you have some related renewables right now, but I was just curious what you think the Commission's kind of looking for there and maybe if you just had any color on what performance-based rate making could look like in the future in Michigan.

---

**Garrick J. Rochow**

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

A

Yeah. So the work that you referenced in the Michigan power grid, there are a number of activities and actions we're looking at and everything from interconnections to what it means to achieve net zero by 2050, that's our Governor's goal, the carbon neutrality by 2050. And so, there are a variety of things that they're taking a look at. And so, it's not – part of it is performance-based rate making. But I would offer this that our Commission and staff continue to be very thoughtful in their approach. And for example, some of it is just frankly updating.

One of the things that's part of our performance metrics we already have in place is average speed of answer. Right? That's a call center metric. Most of our communications and most of our activity, as I shared with you earlier, are digital in nature. And so, to measure average speed of answer in today's time period is not really

relevant. And so, part of this too is a thoughtful updating of what are those standards that we measure ourselves to and getting alignment around those. And so, again, it's still in development. That's currently where we are. And I believe our Commission and the regulatory construct will continue to be thoughtful in that approach.

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

Q

And I guess just with that example, the idea would be potentially every rate case or every sort of rate cases, maybe you have kind of a target for average speed of answer as a performance metric, then you'd just be gauged against that and you might have an incentive or a penalty associated with that?

**Garrick J. Rochow**

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

A

Well, we already have average speed answer. That's already our performance metric which we work with, and we measure our performance too and work with staff and the Commission on. And so, right now, it's really too soon to tell. I mean this power grid work and the work that's going on is there's a lot of avenues of this and it's just – there's work groups that are underway. And we simply don't know what it looks like from a performance based rate making perspective.

**David Fishman**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Thank you very much for your time. Appreciate and congrats on a great year.

**Garrick J. Rochow**

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

A

Thank you.

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

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

Hey. Good morning, guys. How are you doing?

**Rejji P. Hayes**

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

A

Hi, Paul.

**Garrick J. Rochow**

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

A

Doing well, Paul. Thank you.

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

So, very – some really quick bookends here. On Enerbank – and I apologize if I missed this – the \$0.02 increase in the fourth quarter, was there anything in particular there that happened?

**Rejji P. Hayes**

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

A

Yeah. Paul, this is Rejji. No, they just – it's been a story throughout 2020 of them just executing and delivering. So, loan origination volumes were up. And we saw that basically after that brief pause for March and April originations slowed down a little bit in the nascent stage of the pandemic. But then they just executed and delivered throughout the year. So, that's what's reflected in that \$0.02 uptick.

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

Okay. Great. And then on slide – so slide 8, so this estimated cost savings. I just wanted to touch base on what they sort of represent. So, I can see with Karn and Campbell, it's adjusted O&M savings. But I don't – I'm not really clear on Palisades and I'm just wondering also since securitization, it looks like \$126 million. I think that was estimated by the Commission. And I wanted to sort of get a sense as to why those aren't being included, if you know what I mean.

**Rejji P. Hayes**

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

A

Yeah. So, – well, I can take those. So, with respect to the PPA-related savings, to give you the quick answer, both Palisades and MCV, when you look at energy and capacity, they're both priced around \$55 to \$60 per megawatt hour. And so, we looked at that relative to the replacement cost. And so, for Palisades specifically, that is worth about \$90 million run rate per year. MCV is a bit more nuanced. That's more just the fact that the capacity price embedded in the contract steps down post-2025. It effectively cuts in half and that's worth about \$50 million. So, that's the essence of the savings there for those two.

Now with respect to securitization, I just want to make sure I understand the spirit of where you're going. Is that with respect to when we tried to terminate Palisades early a few years ago or the \$126 million? I just want to make sure what you're referencing there.

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

Well, there was that securitization order for about \$680 million, \$690 million or something...

**Rejji P. Hayes**

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

A

Correct.

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

...that you guys got in December. And I think \$126 million was basically – was what they basically thought was the savings that they called out as being the savings. And I guess what I'm wondering is it seems like there might be other savings that you guys would be encountering here from securitization. Also, it seems maybe some stuff from the coal as well that you guys aren't adding in there. And I'm just wondering why you're not calling those out.

**Rejji P. Hayes**

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

A



I can see where you're going. Okay. So, you're correct about the December securitization order of about \$688 million. To be very clear, that was specifically related to Karn 1 and 2. And so, what we've enumerated on page 8 are the O&M-related savings that we have quantified, there could be additional savings above and beyond that. We have good experience, as you know, closing coal facilities. So, we obviously did the classic seven in 2016. And based on that history, that's where we've come up with a \$30 million if there are additional savings potential in the fuel side or otherwise. We'll obviously realize that upside to the benefit of customers and investors. But for now, we're just reflecting the O&M savings at Karn 1 and 2, and the securitization order that we got in December solely related to that closure.

---

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

And are these annual numbers or...

---

**Rejji P. Hayes**

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

A

Yeah. These are run rate. So we don't anticipate these being just one time or episodic. I mean the events themselves are episodic but we expect these to be ongoing.

---

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

And so just – I'm sorry to be slow on this, but it looks like there's maybe considerably more savings that you guys might be getting from this. I mean this seems conservative, these cost savings that you're bringing up. I mean some of it obviously will go back to customers. But am I correct in that?

---

**Rejji P. Hayes**

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

A

Well, couple things. So, we always plan conservative for sure. And remember, this is just related to these events. So the Palisades retirement, the Karn facilities, the Campbell 1 and 2 potentially in 2031 as well as MCV, this excludes all the CE Way and waste elimination related savings. So, \$200 million is not the extent of our ambitions. That is solely the quantification of these amounts that are enumerated in the slide. We certainly think we can do more. And if there are additional savings within these items enumerated on page 8, we will realize them and where we come – when they arrive. But again, Paul, you know our style. We are very conservative in how we go about our business and we'd rather, I'll say, deliver and surprise to the upside than the downside.

---

**Paul Patterson**

*Analyst, Glenrock Associates LLC*

Q

Awesome. Thanks so much, guys.

---

**Rejji P. Hayes**

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

A

Thank you.

---

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

---

**Sophie Karp**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi. Good morning, guys. Thank you...

**Rejji P. Hayes**

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

A

Hi, Sophie.

**Sophie Karp**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

...for taking my questions.

**Garrick J. Rochow**

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

A

Hi, Sophie.

**Sophie Karp**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

So, most of the questions have been answered. I guess, I don't want to beat the dead horse on equity and so on. But just maybe if I may, a quick follow-up on pensions. You mentioned that the plans are fully funded and I think the market action helped that a lot in 2020. How does – how do you contemplate, I guess, the potential contributions over the next five years during your planning period and how is that factoring into your equity needs and just general balance sheet planning? Thank you.

**Rejji P. Hayes**

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

A

Yeah. Sophie, appreciate the question and thank you for the opportunity for us to really promote our activities over the last – not just last year but couple of years where similar to our mindset around flexing up on the income statement side, we also choose to flex up on the operating cash flow side. And last year, we saw pretty good upside largely driven by cost performance, a little bit from the CARES Act that allowed us to have some upside on OCF. And so, we took the liberty to put about \$700 million to work in discretionary pension contributions, most of which were in this January of last year. But we did a good portion in late in Q4 and that's allowed us to fully fund the pension. And so, where we sit today, we don't anticipate certainly not any – we certainly don't anticipate any involuntary contributions. And I think if there are any embedded in the five-year plan, I would say they're relatively de minimis.

And so, where we sit today we think there should be really light contribution requirements over the next five years. Now, clearly there are variables. So, if you see discount rates come down, if you see asset performance underwhelm or underperform, that could require additional contributions. So, where we sit today, we feel quite good about the lack or limited amount of contributions over the course of five-year plan. And so, there's no real material impact embedded in our equity issuance assumptions. But again, these variables toggle and you have to recalibrate every year. So, we'll see what the fact pattern looks like over the next couple of years. Is that helpful?

**Sophie Karp**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah. It's super helpful. Thank you. And then, one last one if I may squeeze it in very quick. Your OCF guidance is down versus 2020, not by a lot but like about \$120 million, \$130 million I would say. So, is the rate order you've

got most recently during the COVID kind of situation is primary driver of that or is there something else that I am missing here?

**Rejji P. Hayes**

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

A

Yeah. So, let me offer this just to be very clear, Sophie, and so, what we have done – and this precedes me and Garrick, it's just been a – just a long standard – longstanding standard we've had from a financial planning perspective for OCF is we have not – unlike on the income statement and EPS, we have not guided OCF off of the prior year actuals. We have just looked at the budget or the guidance we provided from prior year, and we've said directionally, it will increase by \$100 million each year off the prior year's guidance. And so, for example, last year, we guided to \$1.75 billion. Obviously, we delivered well in excess of that, and then, this year, again, \$100 million above and beyond that \$1.85 billion. So, yes, that is down from where actuals were which was just under \$2 billion. And again, a lot of that had to do with the cost performance as well as again some CARES Act-related benefits.

And so, I wouldn't view that as conservatism or just any type of rate or regulatory-related actions. It's just us again just thinking about the annual growth that we can deliver from an OCF perspective. But we're saying all in over the next five years, we're going to do over \$10 billion of operating cash flow generation and that is in excess of what we were anticipating over five years from the prior vintage, which I think was south of \$10 billion, around \$10 billion. So, we feel good about our ability to deliver on operating cash flow. And it's not a result of any of the regulatory outcomes. I think the only thing you'll see in the gas settlement is about \$30 million, \$35 million of operating cash flow challenge because we're staying out. But again, it's relatively de minimis in the grand scheme of things.

**Sophie Karp**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Thank you. Very helpful. Appreciate it.

**Rejji P. Hayes**

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

A

Thank you.

**Garrick J. Rochow**

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

A

Thanks, Sophie.

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

**Garrick J. Rochow**

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

Thanks, Rocco. And I'd like to thank everyone for joining us today for our year-end earnings call. I'll be back out on the virtual road shortly, and I look forward to connecting with you. And I'm hoping we can meet face to face safely before the year is over. Take care and be safe.

**Operator:** Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect your lines. And have a wonderful day.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.