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# CMS Energy Corp. (CMS)

Q1 2021 Earnings Call

## CORPORATE PARTICIPANTS

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**Garrick J. Rochow**

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

**Rejji P. Hayes**

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

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## OTHER PARTICIPANTS

**Jonathan Arnold**

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**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, everyone, and welcome to the CMS Energy First Quarter 2020 (sic) [2021] (00:05) 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 6th. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

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

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**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.

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## Garrick J. Rochow

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

Thank you, Sri, and thank you, everyone, for joining us today. We appreciate your interest in CMS Energy.

Over the past five months, I've been on the virtual road and have had the opportunity to meet with many of you to share our investment thesis which delivers for all our stakeholders. This thesis is grounded in our commitment to the triple bottom line of people, planet, and profit and enables the excellence you have come to expect from CMS Energy.

Many of you have asked, what will change under my leadership? And I want to reemphasize, we changed leadership, not the simple, proven investment thesis that delivers year in and year out. Looking forward, we're committed to leading the clean energy transformation with our net zero carbon and methane emissions plans, which are supported by our clean energy investments in our current, progressive, Integrated Resource Plan.

Furthermore, we are recognized as top tier for ESG performance earning top ratings amongst our peers. We continue to mature our industry-leading lean operating system, the CE Way, eliminating waste and improving our performance. I love this system. Over the past several years, we have used it across the business to drive efficiencies, improve employee engagement, and deliver sustainable cost performance. I've seen it, I've worked it, and we have plenty of gas that are left. Today, we are crafting the next horizon, what I'll call CE Way 2.0, which layers in greater use of automation and analytics and begins to position CMS Energy as a leader in digital. Another key differentiator of CMS Energy is Michigan's top-tier regulatory construct that has 10-month forward-looking rate cases and constructive ROEs.

This all leads to our adjusted EPS growth of 6% to 8%, and combined with our dividend, provides a premium total shareholder return of 9% to 11%. At CMS Energy, we wake up every day to get after it, deliver for our customers in all conditions, rain, snow, sleet, wind. We never quit. And for you, our investors, we never quit. This year is no different.

Now, let's get into the numbers. In the first quarter, we delivered \$1.21 of adjusted earnings per share. This is up significantly \$0.35 from last year, primarily from an incremental revenue to fund needed customer investments and sustained cost performance. As a reminder, our full year dividend is \$1.74, up 7% from last year. We are reaffirming our 2021 guidance for the year of \$2.83 to \$2.87 of adjusted earnings per share and our long-term earnings and dividend per share growth of 6% to 8% with a bias to the midpoint.

At CMS Energy, we're committed to our promises to our co-workers, the communities we serve, and our planet as we are delivering our financial commitments. During my discussions with many of you, the topic of ESG often comes up. I'm proud of our leadership in this space. We continue to enhance our commitments and our efforts are being recognized with top-tier ratings.

We remain a AA rated company by MSCI and have ranked top quartile for global utilities by Sustainalytics since 2013. This is a deep commitment that began well before it was a trend. Our commitments to net zero methane emissions by 2030 and net zero carbon emissions by 2040 are among the most aggressive in the industry. As our industry approaches a cleaner energy future, and we retire our legacy generating units, it is critical that we honor the contributions and service of our co-workers, as well as address the economic impact on those communities.

Now, I began my career on the generation side of our business. I've walked the halls, climbed the stairs of every one of our generating plants, shaking hands, drank coffee with the men and women who work every day to provide energy for our customers. And I am proud of the honorable and equitable way we have cared for both our co-workers and our communities as we retire these units from service. We've built a playbook for success. It began with the retirement of our seven coal plants in 2016. That work will continue with retirement of Karn 1 & 2 in 2023.

Our leadership and track record in this space is something I'm proud of and will continue as we look to the future. This ensures success for all stakeholders, including our investors. While many focus on the E of ESG, we have a strong record of delivering across all three. In my 20 years of service, I believe our culture has never been stronger. Every single day, our co-workers show up with a heart of service for our customers, our communities, and ultimately, you, our investors.

Our culture, anchored by our values, is thriving across our company and it's why we're recognized for top quartile safety performance, industry-leading employee engagement, Forbes' Best Employer for Women, Best for Vets by Military Times, and Best Places to Work for LGBTQ Equality in the Corporate Equality Index. And earlier this month, we were ranked by Forbes as the number one utility in the country as Best Employers for Diversity. Our leadership, commitment, and top-tier ESG performance should provide you with the confidence that our long track record will continue to deliver value for customers and investors.

Turning to recent updates, I want to highlight our continued growth in renewables with several exciting announcements. We are pleased to announce the recent Commission approval of our Heartland Wind project in March, which will be online in December of next year. This project adds 201 megawatts of new capacity as a part of our renewable portfolio standard earning a 10.7% return.

I'm also pleased to share that we received approval for the first tranche of our current Integrated Resource Plan, which adds nearly 300 megawatts of new solar through two projects that we expect to come online in 2022. We're evaluating the second tranche of our current IRP, another 300 megawatts of solar expected to come online in 2023 and the third tranche, 500 megawatts of solar, expected to come online in 2024 for a total of 1,100 megawatts.

We're on track to file our next Integrated Resource Plan in June. It has been a popular topic in our meetings with many of you. While we're still finalizing the details, the focus of our upcoming IRP will be to accelerate the decarbonization of our fleet, ensure reliability and affordability, and have renewable and demand-side resources in a way that makes sense for our customers and investors while maintaining a healthy balance sheet. I'm excited for this next IRP. It serves as yet another proof point that we are leading the clean energy transformation.

A part of our clean energy transformation includes the retirement of our remaining coal fleet. On slide 7, you'll see our plan to decarbonize is both visible and data-driven. The meaningful reduction of carbon emissions in our plan will drive our ability to achieve net zero carbon emissions by 2040.

Over the past few months, I've been asked quite a bit about the future of our gas business. As I've shared with many of you, our gas business and system is critical to providing affordable and reliable heating here in Michigan. But that doesn't mean we're sitting on our tails here. In fact, we're actively working to decarbonize our gas system. Now, this aligns very well with the recent announcement from the Biden administration.

Our first step is to reduce fugitive methane emissions, which is well underway. As we accelerate the replacement of vintage mains and services, both plans approved by the Commission will decrease our emissions and achieve our net zero methane goal. Our decarbonization plans also leverage energy efficiency to reduce carbon usage and put renewable natural gas on our system which will help decarbonize more difficult sectors such as agriculture.

By replacing vintage mains and services with plastic piping, we will be positioned to deliver hydrogen or other clean molecules to our customers in the future. As we grow our renewable portfolio and decarbonize our generation fleet and gas delivery system, we'll remain committed to delivering against the triple bottom line, people, planet, and profit.

Before I turn the call over to Rejji, I want to end with this slide. It demonstrates our consistent industry-leading performance for nearly two decades. As much as things change, one thing stays consistent, year-in and year-out, we have and will continue to deliver. 2020 proved this. 2021 will be no different. Marking 19 years of consistent predictable financial performance.

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

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## Rejji P. Hayes

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

Thank you, Garrick. And good morning, everyone.

As Garrick highlighted, we're pleased to report our first quarter results for 2021. In summary, we delivered adjusted net income of \$348 million or \$1.21 per share. For comparative purposes, our first quarter adjusted EPS was \$0.35 above our Q1 2020 results, largely driven by rate relief, net of investment related expenses, better weather, and sustained cost performance from our 2020 efforts of the Utility. Our Enterprises and Parent & Other segments were slightly down as planned due to the absence of a onetime cost reduction item in 2020 and higher funding related costs, respectively. This modest negative variance was more than offset by strong origination growth at EnerBank which exceeded its Q1 2020 EPS contribution by \$0.06 in 2021 as planned and is tracking toward the high end of our guidance for the year of \$0.22 per share.

The waterfall chart on slide 10 provides more detail on the key year-to-date drivers of our financial performance versus 2020 and highlights our latest estimates for the major year-to-go drivers to meet our 2021 EPS guidance range.

To elaborate on our year-to-date performance, while weather in the first quarter of 2020 has been below normal to date, which has led to lower volumetric gas sales, it has been better than the historically warm winter weather experienced in the first quarter of 2020. And the absence of that weather has led to \$0.08 per share of positive variance period-over-period.

From a rates perspective, given the constructive regulatory outcomes achieved in the second half of 2020 for our electric and gas businesses, we're seeing \$0.26 per share of positive variance. As a reminder, our rate relief estimates are stated net of investment related costs such as depreciation and amortization, property taxes and

funding costs. It is also worth noting that our 2021 financials reflect the accelerated amortization of deferred taxes as part of our 2020 gas rate order settlement.

On the costs side, as noted during our fourth quarter earnings call, we budgeted substantial increases in our operating and maintenance expenses in 2021 versus the prior year to fund key initiatives around safety, reliability, customer experience and decarbonization, and in alignment with our recent rate orders. As you can see, we're \$0.02 per share above our spend rate in the first quarter of 2020 as planned, and I'm pleased to report that we're seeing sustained cost performance from 2020, as well as increased productivity in 2021 largely attributable to the CE Way. That said, we do expect to see the bulk of the planned O&M increases to materialize later in the year.

The balance of our year-to-date performance is driven by the aforementioned drivers at our non-Utility segments and non-weather sales [ph] which though (15:36) slightly down at about 1% below the first quarter 2020 continue to exhibit favorable mix with the higher margin residential class up 2% versus Q1 of 2020. And I'll remind you that our total electric sales exclude one large low margin customer.

As you look ahead to the remaining nine months of 2021, we are cautiously optimistic about the glide path illustrated on this slide to achieve our full year EPS guidance. As always, we plan for normal weather, which in this case translates to \$0.12 per share of negative variance given the above-normal weather experienced in the second and third quarters of 2020. The residual impact of the aforementioned rate relief, which equates to \$0.22 per share of pickup and is not subject to any further MPSC actions, and the continued execution of our operational and customer-related projects which we estimate as an incremental \$0.18 per share of spend versus the comparable period in 2020. We've also seen the usual conservatism in our Utility non-weather sales and our non-Utility segment.

All in, we are pleased with our strong start to the year and are well positioned for the remaining three quarters of 2021. And needless to say, we'll be prepared to flex cost up or down as the fact pattern evolves over the course of the year.

As we look out over the long term, we're in the early stages of executing our \$13.2 billion five-year customer investment plan at the utility, which is highlighted on slide 11 and will provide significant benefits for our customers, the communities we serve, and our investors. As a reminder, we have budgeted over \$2.5 billion of investments in 2021, the vast majority of which is earmarked for safety, reliability and clean energy projects. We are on track thus far and recently filed an electric rate case in March that enumerates our customer investment priorities to the 2022 test year, which are summarized in the right-hand side of the page among other key details related to the filing. We expect an order from the Commission by the end of the year.

Despite the substantial customer investments that we intend to make on our electric and gas system over the next several years, as you know, we take great pride in taking out costs in a sustainable way to maintain affordable bills for our customers, and we have the track record to prove it.

The left-hand side of slide 12 summarizes the key components of our cost structure, which we have successfully managed over the past several years, while investing significant capital on behalf of customers. In fact, from 2007 to 2019, we reduced utility bills as a percentage of customer wallet by 1% while investing roughly \$19 billion of capital in the Utility over that timeframe.

As we look ahead, we have several highly actionable event-driven cost reduction opportunities which will provide substantial savings in the years to come. The planned expiration of our Palisades power purchase agreement and the recently approved amendment to our MCV PPA will collectively generate roughly \$150 million of power supply

cost recovery savings. And as you'll note, our initial estimates for the potential savings for the MCV contract amendment of approximately \$50 million proved conservative with the revised estimate of over \$60 million in savings per the Commission's order in March.

Also, the planned retirements of our five remaining coal units should provide another \$90 million of savings in aggregate exclusive of any potential fuel cost savings which will create meaningful headroom in bills for future customer investments.

Lastly, I'd be remiss if I didn't mention our annual O&M productivity delivered through the CE Way which last year generated roughly \$45 million of savings and surge as a critical tool to our long-term and intra-year financial planning. To that end, many of you've asked about proposed changes in corporate tax policy and its potential impact to our plan. Though at this point the final details remain unclear, for us that we're evaluating the potential effects and will leverage the CE Way and other cost reduction opportunities including potential offsetting tax credits that are also being proposed as part of the legislation to minimize the impact to customers while executing our capital plan.

As we said before, it is our job to do the worrying for you, and we are uniquely positioned over the next several years to manage any potential headwinds. With our unparalleled track record on cost management driven by our highly-engaged workforce, coupled with a robust customer investment backlog and top-tier regulatory construct, we are confident that we can deliver on our ambitious operational, customer and financial objectives for the foreseeable future.

And with that, we'll move to Q&A. So, Rocco, please open the lines.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. The question-and-answer session will be conducted electronically. [Operator Instructions] Today's first question comes from Jonathan Arnold with Vertical Research Partners. Please go ahead.

**Jonathan Arnold**

*Analyst, Vertical Research Partners*

Good morning, guys.

Q

**Garrick J. Rochow**

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

Good morning, Jonathan.

A

**Jonathan Arnold**

*Analyst, Vertical Research Partners*

A quick one. So, Garrick, yeah – and appreciate the comments on the IRP, and you mentioned that the sort of focus will be on accelerating decarbonization. Are you willing to sort of talk about how significant an acceleration you might sort of have in mind? Could we be now talking about bringing net zero sort of to, think about, 2035 timeframe on electric, for example?

Q

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

A

Thanks for your question, Jonathan. We've laid out those objectives and all of those objectives, [ph] I'd refer them all are (21:52) equally important. And so, decarbonization is one, but so is reliability and affordability, and the rest of them that are listed there within the deck.

You'll recall from the settlement we had on our current Integrated Resource Plan in 2019 that we were going to take a look at the potential for accelerating Campbell 1 & 2, which is currently scheduled to retire in 2031. And so, we're doing that as part of this evaluation. And I would just put it this way, we are in the final throes of completing the exhibits and testimony. We'll be sharing the outcome with our Board of Directors like we do and some of our large filings in early May here. And I don't want to get too far ahead of our Board of Directors here. So, our objectives are true. That's what we're targeting. And we look forward to sharing more in the Q2 reports.

**Jonathan Arnold***Analyst, Vertical Research Partners*

Q

Okay. Fair enough. Thank you for that. And then, just on – may I ask on the EnerBank [indiscernible] (22:54) you've mentioned you are now tracking to the high end of the range, but it seemed a unusually sort of big number in the first quarter, is there anything other than just strong origination going on there? Maybe Rejji?

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

A

Yeah. As you know – yeah, Rejji chairs it. So, Rejji, why don't you go ahead?

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

A

Jonathan, thanks for the question. I think you hit one of the bigger drivers, and so, it's really a couple of things. You've got strong origination growth and we really saw – and we talked about this, I'd say, in quarters two through four last year, a nice staycation bid with very good loan origination volumes, so swimming pools, HVAC systems and that has carried on. So you've got strong origination growth. And you also, I would say, have a weak comp in Q1 of last year just because, as you recall, the pandemic really started to impact the global economy in the latter part of March. And so Q1 of last year picked some of that up.

We also do have a loan sale as part of that earnings growth. Now this is all on plan. We had anticipated this in our 2021 plan, but that also offers the favorability relative to Q1 of 2020. And we've always talked about the fact that we don't allocate capital to the bank. And so they have to fund their own growth. And so loan sales is certainly part of that strategy. So it's really a combination of strong origination growth coupled with loan sales.

**Jonathan Arnold***Analyst, Vertical Research Partners*

Q

Okay. So does that some – I mean, can you maybe quantify how much that piece was and perhaps could also talk about where that leaves the book in terms of size, maybe relative to where it was?

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

A

Sure. So they gave about \$0.06 of upside from my prepared remarks relative to Q1 of 2020. Roughly half of that was due to the loan sale and about the other half for the origination growth. So [indiscernible] (24:48) \$0.02 for



each or \$0.02 to \$0.03 for each. And I'd say the book still looks quite good. For competitive reasons, we don't talk about annual origination volumes. But there's still around \$3 billion of assets all in.

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**Jonathan Arnold**

*Analyst, Vertical Research Partners*

Q

Okay. Thank you for that and I'll leave with that. Thanks.

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**Rejji P. Hayes**

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

A

Thank you.

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

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**Garrick J. Rochow**

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

A

Hi, Andrew.

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**Andrew Weisel**

*Analyst, Scotia Capital (USA), Inc.*

Q

Hi. Good morning, everyone. [indiscernible] (25:18) continuing on the EnerBank conversation there. I think, Rejji, you just said that the strong origination growth from last year has continued. What's your latest thinking on when that might return to sort of a more normal level? In other words, the COVID trade will eventually moderate. There are only so many swimming pools to be installed.

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**Rejji P. Hayes**

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

A

Yes. It's a good question. And we may not see sort of the feverish volumes we saw in 2020, but we continue to see high applications and again, very good origination volume going into the second quarter. So, I'm not convinced that that trend will abate anytime soon, and it's not just swimming pools. They also do HVAC installations. That's a fairly noncyclical product. And they also do resi solar, and there's still good organic growth there as well.

So, there's decent diversification, Andrew, in the loan portfolio and swimming pools certainly are quite strong. But again, we haven't seen any signs that that will abate anytime soon. And if that does happen, let's say, in 2022 or beyond, well, then at that point again there's good HVAC [ph] balloon (26:22), there's good resi solar, and they also do kitchen and windows and doors.

So, home improvement from our perspective, it's not going to be the sort of thing that's going to die out any time soon. And we've been at this now for over a decade, and they've delivered in a very noncyclical way for some time now.

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**Andrew Weisel**

*Analyst, Scotia Capital (USA), Inc.*

Q

Okay. Great. And you mentioned it's trending toward the high end for the full year, I mean that kind of sounds like an understatement given that they earned \$0.11 in the quarter alone. So, what might be the limiting factor there

as far as the – let me put it this way. Is the balance sheet of CMS a limiting factor or are there other ways that you might slow down the growth rate to elongate the trajectory?

**Rejji P. Hayes**

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

A

Yeah. So, let me be clear. So, even though they delivered \$0.11 of EPS contribution for the quarter and that was a [ph] strong V (27:16) versus Q1 of 2020, that was on plan. They were about \$0.01 ahead of plan. So we assumed that \$0.10 in a pretty front-end loaded earnings trajectory in 2021. And so we do still see them kind of being within the range of \$0.20 to \$0.22.

I wouldn't say it's due to us actively potentially slowing them down. It's just part of the plan. There's a little bit of seasonality in the business. We'll see how it trends over time. But like the rest of the business, we'll manage it where we try to avoid [indiscernible] (27:43). And if there are opportunities to derisk 2022 and beyond by some leverage we pull at the bank as well as the other business, we'll look to do that.

**Andrew Weisel**

*Analyst, Scotia Capital (USA), Inc.*

Q

Okay. Great. Then just more broadly when you think about the CE Way, obviously, you had a really [audio gap] (27:59) investment mode to benefit customers and position yourselves well for next year and beyond, or is it just too early given your typical uncertainty around summer weather?

**Garrick J. Rochow**

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

A

Well, I'd tell you the CE Way is alive and well, and we continue to work that system. As I shared in my comments, I do truly love that system and what it means for not only cost management, but what it means for improved customer service and co-worker engagement and employment – not employment, empowerment. So, we're working all the time because it probably provides some nice value for our customers in addition to cost management, so that's well underway.

But to get to the heart of your question, we're early in the first part of the year here, we feel good about the quarter, and we'll continue. As you know, Andrew, when those opportunities, should they show themselves, we'll reinvest for the benefit of our customers and for our shareholders here to really derisk the future years.

**Andrew Weisel**

*Analyst, Scotia Capital (USA), Inc.*

Q

All right. Sounds good. Looking forward to the IRPs.

**Rejji P. Hayes**

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

A

Thank you.

**Operator:** And our next question today comes from Jeremy Tonet with JPMorgan. Please go ahead.

**Garrick J. Rochow**

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

A

Good morning.

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

Q

My good morning. Hi. Thanks. I was wondering if you could comment a bit more on how energy transition could impact the upcoming IRP, especially with the focus on hydrogen and expanded tax credits such as [ph] 45Ts (29:32) enhancing CCS economics. What type of timeframe do you think this could make sense for CMS, could it find its way into your plans or do you think they can find their way into your plans?

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

A

Well, we've been talking about it in a bigger way than just energy transition, we call it the energy transformation. And it's certainly what we're leading here and it shows up on our first and our current and I would say a progressive Integrated Resource Plan, the one that we're building out right now. Just a ton of solar, 1,100 megawatts with solar, the retirement of Karn 1 & 2, and energy efficiency and demand response programs that are outstanding offerings for our customers.

But with any Integrated Resource Plan, particularly when you get to the end years of that plan, there's about a 10% to 20% gap that you've got to close. And that's not unique to CMS. You'll hear our peers talk about that as well. But I will remind you we have the most aggressive plans out there and decarbonization by 2040. So, there does need to be technology advancements that comes in carbon capture, that comes in hydrogen, that comes in terms of lithium-ion, both from a reliability as well as affordability perspective. And so, all of the above is needed.

And so, in fact, we're just – even tomorrow, I'm going to be with – a call with Department of Energy and Office of Management and Budget tomorrow to – again, we're advocating for R&D type funding to continue to close that gap, particularly in the out-years. And so we'll participate as it makes sense within the regulated utility to close some of those gaps. But, again, they're out in the 2035 to 2040 timeframe.

And then, Reiji, you might have something more to add on that as well.

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

A

Hey, Jeremy. The only part I would add to Garrick's comments is just around the tax incentives, I mean it's obviously early days, but we've been encouraged with some of the proposals we've seen offered particularly in the widened bill with potential incentives applied on a technical basis for zero carbon emitting resource as well as potential flexibility on choosing PTCs versus ITCs, and then more refundability which is really one of the biggest constraints for utilities to execute on some of these renewable projects. And so, if we see good advancements there, that obviously allows us to be more front-of-the-media solutions on a cost-effective basis for customers. So, that's encouraging. But, obviously, early days there.

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

Q

Got it. That's very helpful. And then just wondering if you could kind of frame your thoughts for us when it comes to the proven versus maybe the less proven technologies, targets as far as how much could be directly owned by CMS versus PPAs, just kind of any framework you could share with us there.

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

A

Well, let me offer this from a proven perspective. One of the things that we are considering within this next IRP is reliability. And so, we look at loss of load expectations, again, particularly in the backdrop of the unfortunate events in Texas. We're going to make sure that our system is reliable in every weather condition. We've got a history of that and we'll continue to do that. And so, clearly, we're going to go with items that are proven. That doesn't mean we're not looking out forward and looking at R&D, but when it comes to putting equipment on the grid, we want to ensure reliability.

But, Rejji, I don't know you may want to add more to the question there with – and then just give you a little bit of cost context.

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**Rejji P. Hayes**

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

A

I'd be happy to. So, as Garrick mentioned, Jeremy, in his prepared remarks, we did recently get approval from the Commission on our first tranche of new solar attributable to the Integrated Resource Plan, the current Integrated Resource Plan and we were, I'd say, pleased with the average cost we saw over the life of the projects when we looked at the owned opportunity versus the contracted. And so, on a levelized cost of energy basis, we saw kind of high \$50 per megawatt hour after the owned solution and kind of low \$50 per megawatt hour for the contracted solution. And so, then that excludes kind of residual value, and others have operational benefits and savings that the owned portion could offer over time.

And so, we do think that longer term, there could be good opportunities as we think through the new solar build out to potentially own more. But again, it's early days in the context of the IRP, I mean we're thinking about 6 gigawatts over the next several – couple of decades, more to come on that, but the first tranche looks pretty encouraging.

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**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

Q

Got it. So, is it fair to say there could be CapEx upside in the IRP here based on what you're talking about there?

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**Garrick J. Rochow**

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

A

Well, Jeremy, we got \$25 billion in the 10 years and \$3 billion to \$4 billion of opportunity out there and a long, long, long track record of organic needed customer investments in the state, renewables, electric and gas to decarbonize. And so, again, you know our history here, there's just lots of opportunities here at CMS Energy.

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**Jeremy Tonet**

*Analyst, JPMorgan Securities LLC*

Q

Got it. Just one last one, if I could. With COVID reopening, just wondering if you could comment a bit on load trends in service territory and degree of residential stickiness that you have seen and could expect to see over the balance of the year.

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**Garrick J. Rochow**

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

A

I'm going to turn it over to Rejji first and then I'll come back with sort of some larger COVID and state-type topics. So, Rejji, why don't you start?

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

A

Sure. Jeremy, pretty good trends over the course of the first quarter. And I'm sure you saw some of materials we rolled out this morning. As I mentioned in my prepared remarks, residential up 2% versus Q1 of 2020. And so, there still continues to be a little bit of stickiness in residential, which is higher margin as we've talked about in the past.

Commercial down 4%, still not quite at the pre-pandemic levels, but I think that has a bit to do with the resurgence that we've seen in terms of case counts in Michigan. And we do expect over the course of the year both commercial and industrial, which is down about 2% will be at pre-pandemic levels around mid-year.

We're also encouraged by what we've seen for most of April in our smart meter data particularly for the residential segment which is about 4% ahead of plan. And so again, the trends look quite good. And we're also seeing just good economic trends in general. And I'll defer to Garrick on some of these details. But [indiscernible] (35:53) seeing the residential class of about 1% versus the same period in 2020. We've seen commercial up a little less than 0.5%, so seeing good count volumes. And I'll have Garrick talk about the interconnection volumes we've seen, but it's been robust to say the least.

So, Garrick, I'll give it back to you.

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

A

Yeah, broadly from a Michigan perspective, I was with the Governor this week, I mean as we've seen the COVID, and this B.1.1.7 variant, the number of hospitalizations declined, the number of positive cases declined, vaccinations continuing to increase. So I'd be surprised if there was an announcement here in the next couple days that opens up more of Michigan as we move forward which will help from a commercial perspective.

But just look at unemployment, we're better in the US right now across Michigan. And if you go into the heart of our electric service territory, Grand Rapids, it's even better. And we're seeing that too not just in unemployment numbers, but new service connects. The number of requested – well, first of all, 2020 was a record year for new service connects in the midst of a pandemic. In the first – Q1 is up 27% over last year over the same time period. That's not just an initiation. That's actually initiation and constructed. So initiated and built, up 27%.

And so, again, we see a number of positive indicators. I could go on and on about this, life sciences are up, food processing is up. There's a great opportunity of growth we're seeing. And I believe it can continue to pick up as we open up more and more the state.

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

Q

That's super-helpful. That's it for me. Thanks.

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

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

A

Good morning, Michael.

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

Q

Hey. Good morning, guys. Hey. In terms of a potential for a higher corporate tax rate, could you talk about the potential impact that would have on you and the NOLs that you have through 2024 [ph] I think and slides to 2025 (37:58)? And then also on the same line, if you have a higher tax rate, does that incur – and let's say, a tax credit extension for renewables, does that – with one offset the other, does this encourage you and regulators to accelerate the build-out of renewables in order to keep taxes down?

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

A

Let me offer a few comments on this and then I'll turn it over to Rejji as well. So, you're getting really to the affordability and the headroom question. And as Rejji mentioned earlier, with the widened proposal, there's a few others out there that we're following closely and we're advocating, frankly, with EEI in Washington, it must be a real tailwind here. I mean, we already have a very aggressive solar build-out in our current IRP, and these renewable credits and – and Rejji went through some of the benefits and specifics of the widened proposal. But they can provide a nice tailwind, a nice savings opportunity for our customers.

And so, I get excited about that. And we know the glass is half full for me, but I think there's some real opportunity there. And to the degree – I'll just keep this in mind – to the degree there are any headwinds or tax implications for our customers, remember this, if there's one company that I'm going to bet on, it's going to be CMS Energy, I mean with this proven track record of delivering year after year from a cost management perspective. And so through the CE Way and alike, and then, as Rejji indicated, these event-driven cost reductions, MCV, Palisades, coal plant retirements, I remain optimistic on our ability to manage it. It's still early. There's still proposals on the table. But I'm confident in our ability to manage it on behalf of our customers and keep bills affordable.

But, Rejji, you may have more to add?

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

A

Yeah. Michael, what I'll just add to all of Garrick's good comments is, I too am encouraged, as I mentioned before, on what we're seeing in incentives. Now, to get directly to your question about NOLs, so like we saw when tax reform was enacted in 2017, there was a re-measurement of NOLs and that led to a noncash loss and a pretty significant one just with the tax rate going from 35% down to 21%. So if you see it come back, let's say, to 28%, you have a favorable re-measurement. Clearly, we would carve that out like we did, but that could be beneficial because it creates a greater tax [ph] shield (40:17). We'd also see some benefit at our Parent & Other segment, which as you likely know is primarily interest expense. And so, you'd see just a greater value in that tax [ph] shield (40:28) as well.

Now, to your question about whether there is a push for more renewable build, given the incentives to offset the rate increases, we'll hold off on our speculation around that three dimensional chess. But, [indiscernible] (40:42) the comments we offered earlier, we do think there will be, certainly, potential attractive incentives and that should offset some of the rate increase implications [indiscernible] (40:50) tax rate increase above 21%.

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

Q

Right. Right. Okay. So you can see what I'm getting at, I mean, you have a higher – if federal governments giving away tax credits at the same time they're raising taxes, it would seem that state regulators would want you to build more, yeah, just the standard reason, I guess. Anyway, that's all I have. Thanks.

**Rejji P. Hayes**

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

Thank you.

A

**Garrick J. Rochow**

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

Thanks, Michael.

A

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

**Garrick J. Rochow**

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

Good morning, Julien.

A

**Julien Dumoulin-Smith**

*Analyst, BofA Securities, Inc.*

Hey. Good morning to you. And thanks for the time and the opportunity. So, if I can keep riffing off from perhaps a couple of the other questions here in brief, I know we're getting late, with respect to the widened plan or what have you in terms of infrastructure, how do you think, one, about the different scenarios that you come out with on the IRP? And two, probably more critically, is there any risk of delay in timeline based on the timeline of credits? I was curious as to how you're thinking about the different scenarios that impacts here, given – well, I'll leave it open-ended for you guys.

Q

**Garrick J. Rochow**

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

There's a lot of proposal, tax proposal on the table. And we don't see them getting being settled here in the next several months. We're on track to file our IRP in June and it will meet those objectives or really, we're aimed at those objectives that are laid out there in the presentation. And so, yes, it will be a plan that's good for Michigan and good for our planet, and it matches our triple bottom line.

A

**Julien Dumoulin-Smith**

*Analyst, BofA Securities, Inc.*

All right. Fair enough. But it doesn't seem as if you're going to necessarily tailor any of the specific proposals around – any of the proposed infrastructure efforts. That could shift the planning through the IRP cycle or process, right?

Q

**Garrick J. Rochow**

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

It's just too early. And we're going to be – I mean we've done all the modeling, we're finalizing the details. We've got a good plan. We'll take it to the Board of Directors as we normally do. But these proposals are going to move – they're probably going to move a lot this summer as well. And so they're a bit unpredictable, I mean there's a lot

A

of positives we see, but they're a bit unpredictable on where they land. And Rejji may have some other thoughts too.

**Rejji P. Hayes**

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

A

Julien, the only thing I would add to Garrick's good comments is that it's important to remember that the legislation and how it's structured and the nature of the IRP process is pretty multi-faceted and takes into account the dynamism of the world. And so we look at the business as usual, business as usual case, we look at a dissent in the emerging technologies. We'll look at environmental policy changes. And then we have various variables that low price, low growth, gas prices, et cetera. And so, there are hundreds of permutations as we structure the IRP. And we do take into account a number of different scenarios. And then we do try to choose what's best from a triple bottom line perspective when you put it all through that Veg-O-Matic.

And so, I'd say there's a lot of dynamism. What's taking place now I do think is to some extent accounted for, but we know that we'll file another one in a few years, if the world changes. And so that's the other benefit of this process that it's very iterative as well.

**Garrick J. Rochow**

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

A

If this world is down, Julien, I think to the degree there is this renewable tax, and again, we like the technology neutral, what it does is it makes it cheaper, right? And so, that is the tailwind. That's the opportunity. So, we'll file a great IRP. I know this, and it's just going to make it cheaper and less expensive for our customers, which is a good thing.

**Julien Dumoulin-Smith**

*Analyst, BofA Securities, Inc.*

Q

Great. Well, best of luck. We'll speak to you after. All right. Cheers.

**Garrick J. Rochow**

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

A

Thank you, Julien.

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

**Garrick J. Rochow**

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

A

Good morning, Travis.

**Travis Miller**

*Analyst, Morningstar, Inc. (Research)*

Q

Good morning, everyone. Thank you. I was wondering we've seen a couple of states here just recently suggest potentially securitization options for coal plant retirements and accelerating that. What's your thought around that and you'd have discussions with Michigan politicians or regulators around that on your thoughts?



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

A

This is it, right, I mean we have – we have worked securitization here for a long time in Michigan. In fact, as part of the law here in Michigan, it requires a 90-day. It was a 90-day process. We just completed one in December for Karn 1 & 2. Many states, many jurisdictions do not have this. We've got a good process underway that exists.

Now, it does, just in full transparency, there's one of the challenges with coal plants out there is they have a remaining book value. And so, if you continue to securitize those, they can have an impact on credit metrics. And so, as I shared in our IRP objectives, that's one of the things that we're watching and we need to be thoughtful about as we pursue decarbonization in our clean energy goals.

**Travis Miller***Analyst, Morningstar, Inc. (Research)*

Q

Sure. No, I appreciate that. That's all I had. You answered my other questions. Appreciate the time. Thanks.

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

A

Yeah. Thank you, Travis.

**Operator:** And your next question today comes from Anthony Crowdell with Mizuho. Please go ahead.

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

Q

Hey. Good morning, Garrick. Good morning, Rejji. Just...

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

A

Good morning.

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

Q

...I have a quick question. Most have been answered and it's a follow-up of an earlier question on decarbonization, and you kind of touched briefly on the events in Texas. But have you noticed any pause in the policyholders for any of the parties that you're involved with during an IRP process of maybe slowing down the decarbonization due to reliability? I know you touched on reliability earlier, but have you noticed any change following the Texas storms, and maybe there's more of an interest in keeping fossil generation around a little longer?

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

A

As I shared earlier, our Integrated Resource Plan, I'm getting way into the engineering weeds with you here, has a loss of load expectation. And so, that's one of the criteria that we're going to make sure that we deliver on. And so, that reliability can come in a variety of different ways. And so, but we solve for reliability. And so, again, we want to make sure what we present to you, to the Commission, to the staff up there, to all our interveners that you have to – when I talk about with our co-workers, when I talk about in the community, and when I talk about [ph] in

Lansing (47:10), it has to be affordable, it has to be reliable and it has to be clean. And so, we have to do all three. That's the challenge. And so, again, we've got a great plan. And you'll hear more about it in Q2.

**Anthony Crowdell**

*Analyst, Mizuho Securities USA LLC*

Q

Great. Thanks for taking my question.

**Garrick J. Rochow**

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

A

Yeah. Thank you.

**Operator:** And the next question today comes from Stephen Byrd with Morgan Stanley. Please go ahead.

**Garrick J. Rochow**

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

A

Good morning, Stephen.

**Laura Sanchez**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning. This is Laura calling for Stephen. On the energy transformation front – and I'm sorry if this is repetitive, but I think the question is a little bit different. Beyond potentially accelerating the retirements of the cancelled units, how much more can you do without compromising the reliability of the grid? I'm wondering if there are gas plants that you could retire early without compromising the reliability of the grid and without assuming new technologies pick up. Basically, how much is affordability versus reliability?

**Garrick J. Rochow**

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

A

Hi, Laura. How are you? Good to have you on the call.

**Laura Sanchez**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you.

**Garrick J. Rochow**

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

A

That's what that loss of load expectations kind of looks at. Again, we've modeled out energy and energy supply for 20 years. We're kind of making sure that we look at what the reliability looks like across the system, to make sure it's the most affordable plan for our customers, to make sure it's clean. And then from an investor standpoint, we're going to make sure that, one, there is a nice opportunity for owned growth within the state of the needed customer investments as well as want to make sure a healthy balance sheet. So, that's the entire balance. And that's what the model solves for us.

So, the question you're asking is exactly what the model is solving for, what is that right balance point where everything comes together. And so, we'll share more of what that looks like and all that mix here in Q2.

**Laura Sanchez***Analyst, Morgan Stanley & Co. LLC*

Q

Understood. And lastly, if I may, could you comment a little bit on your current efforts on R&D and if there are any voluntary programs offered or that will be offered in your gas utility?

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

A

So there is a small amount of RNG on our system, as we speak. To obtain net zero methane by 2030, we'll have to put a bit more of RNG on our system. When I say a bit, let me quantify that. We'll move about 300 million cubic feet of natural gas on our system on an annual basis. We have to put about 0.3 billion, yes I said, 0.3 billion cubic feet. So that will help us get to net zero along with some thoughtful and deliberate investments in replacing old mains and services. So, there'll be more added as we move forward.

Now, as we again continue to think about our carbon footprint, there's the potential to add more renewable natural gas across our system. We'll do that in a thoughtful and deliberate way that's affordable for our customers and it's considered at the plan.

Now, to your specific question on a program, we do not have a specific renewable natural gas program for our customers. We intend to add one over the course of this year. And so, we'll be making a filing in 2021 that offers a program for our customers in this space.

**Laura Sanchez***Analyst, Morgan Stanley & Co. LLC*

Q

Understood. Thank you so much.

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

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

Thank you, Rocco. And I'd like to thank you all again for joining us today. I'm looking forward to when we can meet face-to-face, hopefully soon and we can do that safely before the year is over. Take care and be safe.

**Operator:** Thank you, sir. This concludes today's conference. We thank everyone for your participation and have a wonderful day.

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