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CMS Energy Corp. (CMS)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy Third Quarter 2021 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 re-broadcast of this conference call beginning today at 12:00 PM Eastern Time, running through November 4. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

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

Srikanth Maddipati

Treasurer, Vice President, Finance & 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'm pleased to share we've delivered another strong quarter and continue to be ahead of plan for the year. I'll walk through the specifics in a moment, but I couldn't be more pleased with the strong execution demonstrated by the team, both operationally and financially. We continue to deliver every day for our customers, co-workers and for you, our investors.

Earlier this month, we completed the sale of EnerBank grossing over $1 billion in proceeds. I want to thank the entire team that brought this to close. The sale of the bank simplifies and focuses our business models squarely on energy, primarily the regulated utility, an important step as we continue to lead the clean energy transformation. The proceeds from this sale will fund key initiatives in our utility business, related to safety, reliability, resiliency and our clean energy transformation. As shared in previous calls, we have eliminated our equity needs from 2022 through 2024. Furthermore, Rejji will highlight in his prepared remarks how we have continued to reduce this year's equity needs as well. The key word there, continued.

As we double down on the clean energy transformation, I'm also pleased to share that we received approval for our Voluntary Green Pricing program, which would add an additional 1,000 megawatts of owned renewable generation for our growing renewable portfolio. This program is in high demand and currently oversubscribed. And more importantly, it's what our customers are asking for, an important step in offering renewable energy solutions for our customers.

As we prepare for the grid of the future, we have a highly visible and detailed capital plans outlined in our recently filed Electric Distribution Infrastructure Investment Plan. This plan provides a five-year view of the projects, down to the circuit level where we plan to invest to ensure the reliability and resiliency of our electric infrastructure and aligns with our operational and financial plans. As always, we balance these investments with customer affordability.

Our prices remain competitive as the average residential customer pays about $2 a day to heat their home and $4 a day to keep the lights on. And because we know our most vulnerable customers still struggle, our team has mobilized resources at the state and federal level to ensure their protection. In fact, as we approach the winter heating season, our 90-day arrears are back to pre-pandemic levels with an 80% reduction in our uncollectible accounts.

Our commitment to identifying and eliminating waste means that we keep our prices affordable. This commitment is evident in our results. In the first nine months of this year, we surpassed our full year cost reduction target of more than $40 million. The CE Way is in our DNA, and we continue to deliver savings in the near term and well into the future. Speaking of the future, this year we grew our EV program with PowerMIFleet. This is part of our long-term planning in collaboration with Michigan businesses, government and school systems looking to electrify their vehicle fleets.

Within just a few months of the program introduction, we are working with nearly 20 different customers on their fleets and have another 50 who have indicated interest for the next tranche, exceeding our expectations. This is an important contribution to our long-term sales growth.

And finally, one of my favorites, which speaks to our culture, our coworkers and our ability to attract the best talent, our commitment to diversity, equity and inclusion continues to be recognized nationwide and most recently by Forbes where we are ranked the number one utility in the US for both America's Best Employers for Women and number one for Diversity, delivering excellence everyday continues to position the business for sustainable, long-term growth.

Strong execution leads to strong results. The two are linked. One drives the other. In early August, we experienced one of the worst storms in our company's history. Our team established an incident command structure, to deploy resources and took decisive action to restore customers. We had a record number of crews on our system. The speed of our response led to the highest positive customer sentiment we have ever received during a major storm. I would be remiss if I didn't take a moment to thank all our coworkers who responded to the call.

During the storm, we had more than 3,700 members of our team working around the clock to safely restore customers. Like we do every year, the storms, pandemics and unseasonal weather, we continue to deliver. And when there is upside, we reinvest. This is the CMS model of responding to changing conditions that allows us to deliver consistently year after year. Year-to-date, we've delivered ahead of plan with adjusted earnings per share of $2.18 for continuing operations.

Our strong performance coupled with the completion of EnerBank transaction and the financial flexibility that provides gives us further confidence in our ability to meet our full year guidance, which we've raised to $2.63 to $2.65 from $2.61 to $2.65 for continuing operations. For 2022, we are reaffirming our adjusted full year guidance of $2.85 to $2.87 per share and our continued strong performance in 2021 builds momentum for 2022 and beyond.

Longer term, we are committed to growing our adjusted EPS toward the high end of our 6% to 8% growth range as we highlighted on our Q2 call. As previously stated, we are committed to growing the dividend in 2022 and beyond. It's what you expect, why you own us and we know it's a big part of our value. As we move forward, we continue to see long-term dividend growth of 6% to 8% with a targeted payout ratio of about 60% over time.

Many of you have asked about gas prices and the impact on our business, and more importantly, our customers. Let me tell you about our gas business. We have one of the largest storage fields in the US and compression resources to match, that is a significant advantage. We started putting natural gas into our storage fields in April and continued throughout the summer when natural gas prices were low. Right now, our fields are full and ready to deliver for our customers' heating needs throughout the winter months. Most of the gas is already locked in at just under $3 per 1,000 cubic feet, which is well below current levels in the spot market and offers tremendous customer value.

Given the operational certainty of storage, as well as the financial protection of a pass-through clause, our customers stay safe and warm all winter long and have affordable bills. Heat in Michigan is not an option and we don't leave it up to the market. We buy, store and deliver. That's what we do.

Michigan's strong regulatory construct is known across the industry as one of the best. It includes the Integrated Resource Plan process, which is a result of legislation designed to ensure timely recovery of the necessary investments to advance safe, reliable and clean energy in our state. Michigan's forward-looking test years and three-year pre-approval structure of the IRP process gives visibility on our future growth. It enables the company and the commission to align on long-term generation supply planning and provides certainty as we invest in our clean energy transformation.

Here's what I like about our recently filed IRP, there is a win in it for everyone. It is a remarkable plan that addresses many of the interests of our stakeholders and ensures supply reliability. It reduces costs and it delivers industry-leading carbon emission reductions. It's clean. We continue to have constructive dialogue with the staff and other stakeholders, and we anticipate seeing their positions later today.

And 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. I'm pleased to offer the details of another strong quarter of financial performance at CMS as a result of solid execution across the company. As a brief reminder, throughout our materials, we report the financial performance of EnerBank as discontinued operations, thereby removing it as a reportable segment and reporting our quarterly and year-to-date results from continuing operations in accordance with Generally Accepted Accounting Principles.

Now on to the results, for the third quarter, we delivered adjusted net income of $156 million or $0.54 per share. The key drivers for the quarter were higher service restoration expenses attributable to the August storms that Garrick mentioned and planned increases in other operating and maintenance expenses in support of key customer and operational initiatives.

These sources of negative variance for the quarter were partially offset by favorable weather, the continued recovery of commercial and industrial sales in our electric business and higher rate relief, net of investment-related expenses. Year-to-date, we've delivered adjusted net income of $628 million or $2.18 per share, which is up $0.19 per share versus the first nine months of 2020, exclusive of EnerBank's financial performance. All in, we continue to trend ahead of plan and have substantial financial flexibility heading into the fourth quarter.

The waterfall chart on slide 8 provides more detail on key year-to-date drivers of our financial performance versus 2020. For the first nine months of the year, rate relief continues to be the primary driver of our positive year-over-year variance to the tune of $0.45 per share given the constructive regulatory outcomes achieved in the second half of 2020 for our electric and gas businesses. As a reminder, our rate relief figures are stated net of investment-related costs, such as depreciation and amortization, property taxes and funding costs at the utility.

This upside has been partially offset by the aforementioned storms in the quarter, which drove $0.16 per share of negative variance versus a third quarter of 2020 and $0.11 per share of downside on a year-to-date basis versus the comparable period in 2020. To round out the customer initiatives bucket, planned increases in our operating and maintenance expenses to fund safety, reliability and decarbonization initiatives added the balance of spend for the first nine months of the year, which in addition to the August storm activity, added $0.35 per share of negative variance versus the comparable period in 2020.

As a reminder, these cost categories are shown net of cost savings realized to-date, which as Garrick mentioned, have already exceeded our target for the year with more upside to come. To close out our year-to-date performance, we also benefited from favorable weather relative to 2020 in the amount of $0.07 per share and another $0.02 per share of upside, largely driven by recovering commercial and industrial load.

As we look ahead to the remainder of the year, we feel quite good about the glide path for delivering on our EPS guidance range, which have been revised upward to $2.63 to $2.65 per share as Garrick noted. As we look ahead, we continue to plan for normal weather, which in this case translates to $0.06 per share of positive variance given the absence of the unfavorable weather experience in the fourth quarter of 2020.

We'll also continue to benefit from the residual impact of our 2020 rate orders, which equates to $0.07 per share and is not subject to any further MPSC actions. And we'll make steady progress on our operational and customer-related initiatives, which are forecasted to have a financial impact of roughly $0.07 per share of negative variance versus the comparable period in 2020. Lastly, we'll assume the usual conservatism in our utility, non-weather sales assumptions and our non-utility segment performance. All in, we are pleased with our strong execution to-date in 2021 and are well positioned for the remainder of the year.

Turning to slide 9, I am pleased to highlight that this year's financing plan has been completed ahead of schedule. In the third quarter, we issued $300 million of first mortgage bonds at a coupon rate of 2.65%, one of the lowest rates ever achieved at Consumers Energy. We also remarketed $35 million of tax-exempt revenue bonds earlier this month at a rate of under 1% through 2026.

Due to the strong execution implied by these record-setting issuances coupled with the EnerBank sale, which provided approximately $60 million of upside relative to the sale price announced at signing, we now have the flexibility to reduce our equity needs for the year even further, which will now be limited to the $57 million of equity forwards we have already contracted.

And with that, I'll turn the call back to Garrick for some concluding remarks before we open it up for Q&A.

Garrick J. Rochow

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

Thanks, Rejji. Our simple investment thesis has stood the test of time and continues to be our approach going forward. It's grounded in a balance commitment to all our stakeholders. It enables us to continue to deliver on our financial objectives. As we've highlighted today, we've executed on our commitment the triple bottom line through the first nine months of the year. We're pleased to have delivered strong results. We're positioned well to continue that momentum into the last three months of the year as we move past the sale of the bank and continue progress of the IRP process. This is an exciting time at CMS Energy.

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] We will pause for just a second. And today's first question comes from Shar Pourreza with Guggenheim Partners. Please go ahead.

Constantine Lednev
Analyst, Guggenheim Securities LLC

Q

Hi. Good morning, team. It's actually Constantine here for Shar, and congrats on a challenging, but successful quarter.

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

A

Thanks, Constantine.

Constantine Lednev
Analyst, Guggenheim Securities LLC

Q

I have a quick question on the cadence of long-term growth that we iterated today. So, the 2022 guidance implies the top of the range performance as you mentioned, and kind of you expect to execute at the high end. And one of the opportunities, obviously the IRP, but that may take some time for approval, execution, but does the 8% growth imply some incremental CapEx for the prior plan or any kind of financing items? And is there any change for the glide path or timing for the offset of kind of the near-term dilution from the business optimizations?

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

A

Well, let me tag team this with Rejji, but here's what I'll offer and here's what you should hear from this call, high confidence in 2021 and that momentum carries into 2022, and we reaffirmed our guidance for that time period with $2.85 to $2.87, and as we've said in previous calls, when I look out at 20 – off this 2022 base, it continues to be at this growth rate of 6% to 8%, and I would expect us to be toward the high end of that.

Now, you know we plan conservatively, and in Q4, we'll provide our capital plan. We expect that capital plan to grow with the things you would be familiar with the gas system, the electric system and the supply system. However, the IRP and particularly the Covert plant in 2023 and the DIG assets in 2025 are upside to that plan. And once we have complete certainty on that IRP process, those provide the opportunity for upside to the plan. And so, I mean, that's the – there's a great deal of confidence that I have about this five-year window when I look at from 2021 through 2025. But certainly, Rejji, jump in to add some additional context.

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

A

Yeah, well Garrick, I think you laid it out well. And Constantine, the only thing I would add just to give you a bit more specifics around the numbers. So, our current plan that we're executing on for five years or 2021 through 2025 is about $13.2 billion. We have not changed that, but we are assuming that we'll increase that by about $1 billion next year in the next vintage and to Garrick's comments that does not presuppose any outcome for the IRP, and there's about $1.3 billion of additional capital investment opportunities that is on the outside looking in, which just gives us more confidence in the plan.

We also are not planning to issue equity, and so there's a funding efficiency that will also be accretive to our financial performance as we see it and what's also not in the plan from a capital investment perspective that Garrick offered in his prepared remarks was the Voluntary Green Pricing program that we got approval on which offers about a gigawatt of capital investment opportunity, specifically renewable spend that we would own from 2024 through 2027. So, all of that from the outside looking in, so you can see why we have great confidence in our ability to deliver towards that high end off of the 2022 base.

Constantine Lednev
Analyst, Guggenheim Securities LLC

Q

Perfect. I think that's very comprehensive and maybe just shifting to the regulatory process for a bit. Just on the IRP, can you talk about how you're building kind of some of the stakeholder comfort with the kind of asset retirement and reg asset treatment and the kind of the mechanisms that you're proposing, and does any of the thinking change around the generation portfolio in light of the commodity shifts that we have seen?

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

A

Well, I'll offer this one and I just credit to the team here at Consumers Energy and CMS Energy. There's been an extensive stakeholder process and engagement with staff, with interveners, with the public that's led up to the filing and has continued through the filing process. And so, I feel really confident about the messages and the testimony are strong and solid and will yield really good outcomes.

But, in my prepared remarks, I said there's a win in this for everyone and I really believe that. When you look at this plan, our 2018-2019 IRP was a great plan. This is even better. The resiliency and reliability of our electric supply, we've done the modeling. It's more reliable plan than the past. It's more affordable, $650 million of savings in this plan over the previous plan, and we cut carbon emissions by 60% by 2025, well ahead of the Paris Accord, the equivalent of taking 12.5 million cars off the road.

And from my standpoint here in the regulatory asset treatment, as I shared in the Q2 call, great testimony and I think we're going to have a constructive dialogue and certainly a supportive dialogue we'll see this afternoon in the intervener comments. And so, there is a win in here for everyone, and when there's a win in there for everyone, there's a great path to a great outcome and I believe that we saw that in 2018 and 2019. And so, I'm looking forward to seeing staff and interveners testimony this afternoon. It's going to be supportive. It'll be balanced. It'll be constructive, and where there are differences, we've done that before. And just look at our 2018-2019 IRP. I feel good about where we're at in the process.

Constantine Lednev
Analyst, Guggenheim Securities LLC

Q

Perfect. Thank you, [indiscernible] (00:24:03). That's very comprehensive. And I'll jump back in the queue. Congrats.

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

A

Thank you.

Operator: And our next question today 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.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Good morning. Hi. I just want to pick up on the CapEx side here and just want to see how are you thinking about grid hardening investments at this point, and specifically, do you think in reaction to the storms this summer, we could kind of see more movement on this side?

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

A

Let me offer this. As I shared in my prepared remarks, we had a great response during the storm and I'll be really clear, the fact pattern of storms has been different across the state. We've had one major storm. But if you stand back and look at the big picture and look forward from a strategy perspective, there certainly is a call for greater resiliency and grid hardening. And that's an opportunity, opportunity from an investment perspective and an opportunity to create greater value for our customers.

And so, I think there's a couple of things driving that. One, we're seeing more severe weather, not just in Michigan, but across the US, and so that is certainly a driver in the equation. And then two, when we think about this transition to electric vehicles and be able to support those vehicles, not only do we need the capacity out there to be able to do that, but also we want to ensure that when we do have an interruption in service, today it's just the refrigerator. Tomorrow it's the refrigerator and the EV and their ability to get to work, that's a whole new standard of performance.

And so, again, big picture perspective, looking at toward the future, I see this as an opportunity, an inflection point where we spend more time and think about resiliency and grid hardening. I'll share one last point on this. I've had the opportunity post-storm to talk with the governor, to talk with the Chair Scripps, and I can't speak for them, but certainly a positive direction when you talk about how do we design the grid for the future with climate change and with severe weather in mind. And so, again, it's an opportunity for investors and an opportunity to create additional value for our customers.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Got it. That's very helpful. Thanks for that. And maybe just thinking about load as we exit the pandemic here, just wondering if you could provide thoughts, I guess, as far as trends by class and really on the residential side how you're seeing, I guess, stickiness there and just any thoughts that you could share on that side.

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

A

Yeah, Jeremy. This is Rejji. I can offer some color there, and we do have a slide in our appendix of the presentation, which is helpful, slide 13. I will point you to also the detailed 15-page digest, also has some good content on load. But what I can say at a very high level is we continue to be encouraged by the residential weather normalized load we're seeing. So, you probably saw year-to-date down roughly 2%, but that certainly compares favorable to plan where we assumed a more aggressive return to facilities for workers.

And so, we do think that this sort of hybrid format or mass teleworking trend should carry on and potentially be part of a new normal, and so in our budget, we had much more bearish expectations this year. We actually thought there'd be a quicker recovery and you see this down 2%. That's in excess of plan. And so, we see performance to the upside there. And then we also compare it to the pre-pandemic level and relative to 2019, we're up about 2.5%. And so, we do think there's a very nice, bit of resiliency to the residential load. And again, it offers a higher margin relative to the other customer classes as you know.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Got it. That's very helpful. Thank you.

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

A

Thank you.

Operator: And our next question today comes from Insoo Kim at Goldman Sachs. Please go ahead.

Rebecca Yuan
Analyst, Goldman Sachs & Co. LLC

Q

Hi. It's Rebecca on for Insoo. Thanks for taking our questions. So, for the ALJ decision on your rate case, it was roughly 25% of your requested revenue increase. So, can you describe which items constitute the difference? And then if this gets adopted, would this impact your 2022 and 2023 growth trajectory?

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

A

Well, I'll offer this. I really view this PFD from ALJ as a bookend. And Michigan's constructive regulatory environment and this commission and previous commissions have really shown a balance and constructive approach. And again, I can't speak for the commissioners but my interaction with the commissioners would suggest that they believe and support healthy utilities, good outcomes from electric and gas rate cases. And when you have those and similar goals, it leads to good outcomes. And so, I view we're going to get an outcome in this electric order that's in December, that's both constructive and balanced, good for Michigan's residents, our customers and frankly good for CMS Energy.

But, Rejji, if you want to just jump into some of the differences.

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

A

Yeah. Rebecca, thanks for the question. And so, what I would add there is you do have a few sources or I'll say buckets of variance that lead to that delta between what we requested and where the PFD ended up. And so, I would say cost of capital is a component. So, we asked for 10.5% ROE, the ALJ was at nine spot seven and so that makes up a good portion of the difference, also you see a difference in equity thickness. And so, we were at 52% equity relative to debt and the PFD was about a point lower than that, I call it 51 and change. And so, those are the primary sources of difference.

There also were differences in opinion on the capital required to really strengthen and harden the system. And so I think, if memory serves me, there's about a $0.25 billion of capital investments that we were proposing for resiliency and reliability, which obviously we think is critically important, particularly on the heels of the August storm activity we saw. And we saw that also as a recommended disallowance of future spend. And so, I'd say those are the major buckets there. And I think once you normalize for where the prevailing ROE and equity thickness are, you start to tighten that gap, but it's primarily those buckets.

Rebecca Yuan
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks. And then for the EDIIP, how much of that is in your five-year base plan and would that be incremental to your rate base or earnings growth?

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

A

I'm sorry, I missed the first part. You said for your what?

Rebecca Yuan
Analyst, Goldman Sachs & Co. LLC

Q

The EDIIP filing. Is that in your five-year base plan?

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

A

Yeah. So, the $4 billion, that does a lot of capital to be clear. The $4 billion of capital attributable to the EDIIP and for everyone else out there, it's the Electric Distribution Infrastructure Investment Plan, that does align with the spend rate we've been on for some time. And so, in our current five-year capital plan of $13.2 billion, about $5.5 billion of that is attributable to electric distribution. And so, we're on this sort of run rate of over $1 billion of year – $1 billion per year of capital investment. And we think that's appropriate to balance, resilience, reliability as well as affordability and so that's effectively what this EDIIP proposes.

Rebecca Yuan
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks so much.

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

A

Thank you.

Operator: And our next question today comes from Jonathan Arnold with Vertical Research. Please go ahead.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Hey, good morning, guys.

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

A

Good morning.

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

A

Good morning.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Can you just – Rejji, you mentioned on the roll forward of the capital plan you would – you probably put about $1 billion associated with that. Could you just – is that the Voluntary Green Pricing being rolled in or is it something else? Is that – would VGP be incremental, maybe a little more color on that comment?

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

A

Yeah. Sure, Jonathan. So to be clear, the $1 billion that we'll likely add to our next five-year plan from 2022 to 2026, that does not include the VGP and the opportunity there for that gigawatt of renewables nor does it include any of the potential capital investment opportunity associated with the IRP. What it will likely entail is, as you may recall, we had when we rolled out our 10-year plan in say the back half of 2019, if memory serves me, we said we had about $3 billion to $4 billion of upside capital investment opportunities, which were not part of that 10-year $25 billion plan, and it largely had to do with electric and gas infrastructure modernization and so those will be the likely components that are added to the capital plan going forward and represent, I call it, roughly $1 billion of upside. I also think we're going to obviously roll forward our IRP-related solar investments that are part of just the existing IRP that we're executing on. So, you'll probably see some of that come into the plan as well as we add another year to our five-year rolling CapEx plan. Is that helpful?

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Yeah, very helpful, Rejji. So said another way that $3 billion to $4 billion is still there despite the VGP and the IRP?

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

A

That's exactly right.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Okay. And then can I just [ph] push (00:33:24), you mentioned that the VGP is already oversubscribed. Can you give us any flavor of sort of by how much and what's the pathway to potentially expanding that?

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

A

Well, I'd offer this. One, some of those are non-disclosure agreements, but just some public announcements. On Earth Day of this year, I was with the governor and we're announced we're supporting the state facilities and they're move to renewable energy, so that's an example. I'll share with you that I was with a large customer just yesterday, a global company, and they were looking at their large manufacturing facilities here in Michigan and looking at renewable type options. And so, we're seeing a definite directional – direction in terms of sustainability among our large industrial customers, and this serves their needs. And so, I'm not going to get into how much from an oversubscription standpoint, but hopefully those examples provide some color on the context of opportunity there.

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

A

And Jonathan, the other thing I would add is if the spirit of your question is whether there will be sufficient demand for that gigawatt of opportunity, we certainly feel very confident that there will be requisite demand to meet the gigawatt of opportunity for the Voluntary Green program.

[indiscernible] (00:34:43)

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

The spirit of the question is a bit more if you are oversubscribed, how are you – don't you need to add to it in order to keep having those conversations?

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

A

And as we see it, that's what the Voluntary Green program would offer up about a gigawatt of additional capacity that we would own in the form of most likely [indiscernible] (00:35:05).

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

A

So, at this point – I mean, to answer your question, Jonathan, at this point, we don't need to add to it. There's some runway there and we'd look to construct these renewable assets in the 2024 to 2027 timeline. So, it's oversubscribed from what we have right now and this will make up a good portion of that 1,000 megawatts, but there's more room to grow there.

Jonathan Philip Arnold
Analyst, Vertical Research Partners LLC

Q

Okay. Thank you.

Operator: Thank you. Our next question today comes from Michael Sullivan at Wolfe Research. Please go ahead.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Yeah. Hey, good morning, everyone.

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

A

[indiscernible] (00:35:43).

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Sorry to put you on the spot a little bit here, but just seeing some of these filings start to come in on the IRP, looks like some of the environmental parties pushing back on, on the gas plant additions, I guess, is that surprising to you guys at all and ways to kind of come to some sort of agreement with them path forward? Any thoughts there?

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

A

I would offer this. When I say there's a win in there for everyone, it's clear that the environmental community loves the fact that we're eliminating coal and would like natural gas not to be the substitute, but here's what we know that the only way that you can deliver the resiliency and the supply side of the business and make sure we don't have an interruption in service, like was evident in Texas, is to have natural gas as part of the solution.

And so, like I said, the staff and other interveners are certainly mindful of the resiliency and the importance of natural gas within the state. So, there's a lot of give and take within these. And I would just offer this, in 2018 and in 2019, we had a lot of different points of view from an intervener perspective and we settled that case. And so, differences are expected, and we work through those, just like we have done, and we have a track record of doing that.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Makes sense. And, yeah, just sticking with the IRP, the other key focus area, I think you touched on a little was the regulatory asset treatment, any parties in particular you would expect to maybe push back on that initially as we start to see testimony?

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

A

Again, I would offer this, and I said this in – on the Q2 call and in other settings, this is an integrated resource plan and it's not a buffet. We've put together a great plan for Michigan. There is a win in it for everyone. And so, we've been really clear about the need for recovery of and on the asset. And so, going forward, I mean that's part of the plan and we've got testimony to support that. And as I stated earlier, when there's a win in there for everyone, there is a path to a good order and a good outcome. And so – and where there's differences, we've shown we have the ability to work with everyone. And so, again, I just see a nice positive outcome here next – in next year in 2022.

Michael P. Sullivan
Analyst, Wolfe Research LLC

Q

Great. Thanks a lot, Garrick.

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

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Hey, good morning, team. Thanks for the time. I appreciate the opportunity to connect.

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

A

Hey, Julien.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Perhaps if – hey, good morning. So, just in brief here, if we can talk about the supportive commentary you brought up a moment ago around the testimony here, can you elaborate a little bit of specifically what your expectations are this afternoon? And perhaps more specifically, as you stated supportive, I imagine that you see perhaps latitude towards the settlement here. I just want to make sure I'm equating one towards the other, right, I mean, in terms of what this translates to next in terms of order?

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

A

Well, I would offer this. I mean I don't have a visibility into the testimony until it's published. And so, I mean, obviously, we had a great discussion with number of the interveners. We know some of their points of view where there might be good support and where there might be small differences. And so, again, I would reflect on it this way, again we've done this in the past many times and rate cases and the like, and we've certainly done this with an IRP. Where there's differences, we find a way to work through those.

And again, I think this afternoon we're going to see – and I look forward to reading in it. I think we're going to see supportive comments in general. And so, when – again, when there's a win in there for everyone, there's a path to a successful outcome. Now, I don't know if it's going to go down the path of settlement or we'll take it to the full order. But again, when there's a win there, there's an opportunity for success and that's what I'm confident about.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.

Q

Excellent. All right. And then just coming back to the rate case a little bit here, given the discrepancy between the ALJ and the staff, does that inform your strategy heading into your next filing here in Q1 at all? I mean, obviously, there's some specific deltas there that you alluded to a moment ago, Rejji, but can you elaborate a little bit more and maybe how you move forward, especially in the next cases, if there's anything yet?

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

A

This is a constructive regulatory environment. Julien, you know that, I know that, and I really see this PFD as a bookend, as I stated earlier. And so, the conversations that we have with staff and outside of cases is really how do we continue to ensure a safe and reliable natural gas system, how do we ensure bring clean energy to Michigan, how do we ensure the reliability and resiliency in electric grid. And so, those are in line with our goals and what we want to do as well. And so, we'll continue to be thoughtful about that process to make sure we balance customers' affordability with that, but I don't see any real change in plans as a result of a specific ALJ PFD at all.

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

And, Julien, the only thing I...

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.
Q

Yeah. No, I appreciate your – oh, go for it.

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

Yeah. Julien, this is Rejji. The only thing I would add is at the end of the day, it also speaks just the benefit of the Michigan regulatory construct and the legislation in that in the event there is misalignment because ultimately at the end of the day the commission's order will dictate where we end up. But in the event there is misalignment, there's a forward-looking test year. And so, obviously, we have not incurred the expenses on the capital or the O&M side. And so, if we see misalignment in terms of where we'd like to go versus where the commission ends up, we can toggle the capital and spend program accordingly. So again, it just speaks to the constructive nature, not just of decisions we've seen in the past, but also the rate construct in the legislation itself.

Julien Dumoulin-Smith
Analyst, BofA Securities, Inc.
Q

Excellent. Yeah, I hear your bookend is the key word here. Excellent, guys. Best of luck. We'll speak soon.

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

Thanks, Julien.

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

Thank you.

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

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

Good morning. Thank you.

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

Good morning, Travis.

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

Hi.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

I have two questions going back to the storms. First one is in your discussions that you referenced with regulators, governor, either within or outside of the rate cases, has there been any talk in addition to some of the public comments about fines or penalties or other kinds of pushback on the storm response? That's my first question. And then the second question was the $0.16, can you kind of break that down in terms of how you offset that to stay on track with the guidance and for this year?

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

A

I will two part this one between, I'll have Rejji take the second question and I'll take the first piece.

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

A

Yeah.

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

A

I would offer this one. Again, conversation with the governor's office and with Chair Scripps have been constructive. And again, I don't want to speak for the chair, but I would offer this. The commission has been supportive of both our electric reliability spend as of recent for the capital investments as well as increased forestry spend. We increased our forestry spend this year by a little over 60% and that was supported through rate case process by the commission. And the commissioners understand that we're in the first year of that, the number one cause for outages is tree trimming, and we have a very aggressive program now in place which will benefit our customers.

And so, our commissioners, I believe understand that we're in the early years of these larger investments and operational maintenance expense, which will help our customers. And so, I think there's full recognition of that. I have not heard any talk at all, zero from the governor's office or from the commission on any sort of penalties associated with the storms in August.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Great.

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

A

And, Travis, the only thing I would add is with respect to the $0.16 of negative variance that I noted in my prepared remarks for Q3 of this year versus Q3 of last year, it was in large part offset as a result of just good weather we saw throughout the quarter. It was quite warm in the month of August and that offset a lot of the incremental service restoration costs that we incurred. And I also want to give credit where credit is due. I think the fact that we've already exceeded our expectations on cost savings across the organization was also quite helpful in offsetting some of the service restoration.

And then lastly, again as I mentioned, residential down 2% year-to-date roughly versus year-to-date last year, but it's ahead of plan too. And so, you've got a little favorable mix as well versus plan. So, all of those factors have largely offset the service restoration expense that we saw in Q3.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Great. Yeah. Thanks. And then just a quick clarification on the $0.16, that was incremental to plan or did that include typical storm-related expenses, I assume you include in all of your plans?

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

A

Yeah, the $0.16 was incremental to Q3 of 2020, so it's just that's a historical comp and that's what that estimate is predicated on...

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay.

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

A

...versus plan, a little higher than planned. But remember, in addition to having a decent amount of service restoration in our budget, we also utilized some regulatory mechanisms both what we call a voluntary refund mechanism that we put in place at the end of 2020 that provided additional budgetary support. And then we also shared a gain on the sale of some assets related to our transmission assets in 2020 that offered additional, I'll say, regulatory liability support that provided additional budgetary insulation of the service restoration expense this year.

Travis Miller
Analyst, Morningstar, Inc. (Research)

Q

Okay. Great. Thanks so much. I appreciate the details.

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

A

Thank you.

Operator: And the next question comes from Ryan Levine with Citi. Please go ahead.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. One on financing proposal, in your plan it looks like you reduced your equity needs for this year by about $43 million. Can you walk us through what's the driver of that and how much is really contributed to the purchase price adjustment for the recent asset sale? And if there's any other factors that are driving that number, if there's some conservatism baked in there?

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

Hey, Ryan, thanks for the question. So, the EnerBank sale gross proceeds and the upside associated therewith was the key driver that enabled us to reduce our equity financing needs for the year and the way it works and it's a little nuance. I've been doing M&A for almost 20 years, but for fincos or financial service companies, you have your traditional adjustments from sign to close on the working capital side, but financial service companies, you also get credit if the book equity of the business increases from sign to close and we saw that with EnerBank's outperformance over those handful of months.

And so that led to about $60 million of upside from the gross proceeds we announced at signing which was $960 million to the amount that we ultimately saw at closing which was over $1 billion, call it just under $1.02 billion. And so, that's what gave us the upside and financial flexibility to reduce the equity needs. And so, it's really a function of just that really strong performance at the bank that accreted their book equity that gave us more proceeds at close.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.
Q

I mean that's a bigger number than the amount of equity you reduced. So, is there some conservative baked into your reduction in equity needs or is this effectively a few million dollars' worth of pre-funding of future equity needs or future capital needs?

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

Yeah. So, remember, we have about $57 million of equity forwards that we've already put in place and we have been putting those in place even before we announced the sale of the bank. And so that gives you effectively a floor for how low you're going to go because at some point we will settle that. And so that's why we stopped at that sort of $57 million because of the existing equity forwards we already have in place.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Great. So, I guess that helps you for future years for capital needs.

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

That's right.

Ryan Levine
Analyst, Citigroup Global Markets, Inc.
Q

Appreciate it. That's all I have.

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

Thanks.

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

Garrick J. Rochow

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

Thanks, Rocco. And I'd like to thank you all again for joining us today. We're looking forward to seeing you at EEI in the near future here, and take care and stay safe.

Operator: Thank you, sir. This concludes today's conference call. And thank you all for attending today's presentation. You may disconnect your lines. And have a wonderful day.