S&P Global
Market Intelligence

CMS Energy Corporation NYSE:CMS

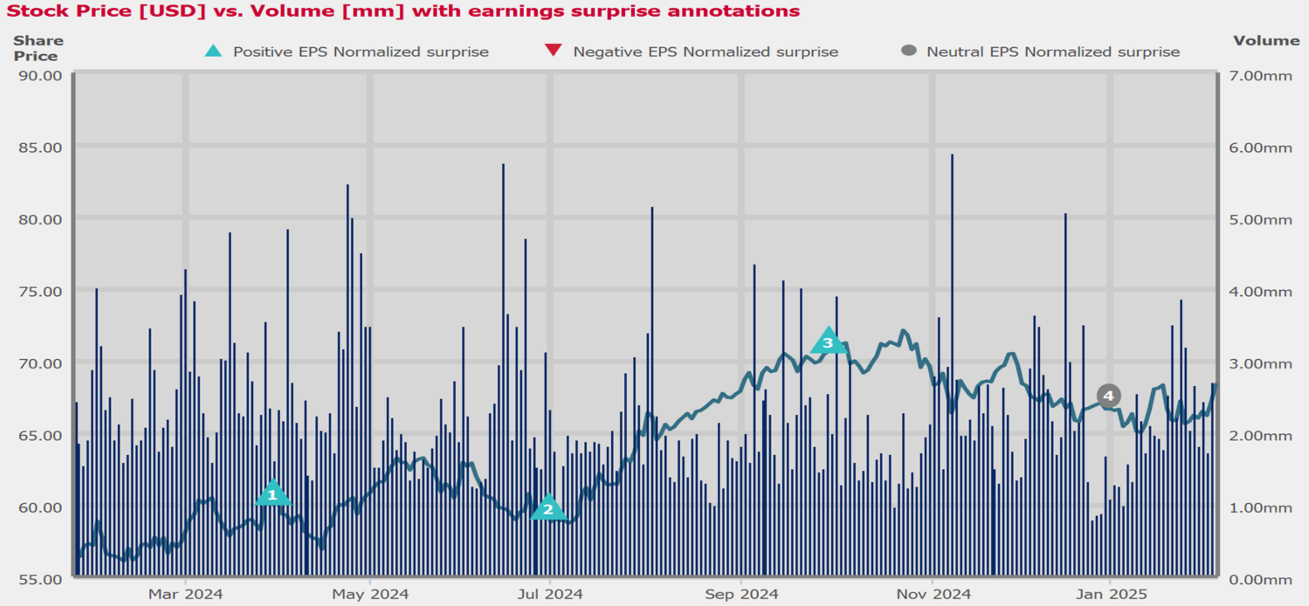
FY 2024 Earnings Call Transcripts

Thursday, February 06, 2025 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE
EPS Normalized	0.87	0.87	0.00	1.09	3.34	3.34	0.00	3.59	3.60
Revenue (mm)	2134.37	1989.00	(6.81 %)	2329.57	7748.78	7515.00	(3.02 %)	8115.49	-

Currency: USD
Consensus as of Jan-31-2025 12:12 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FY 2024	3.34	3.34	1 0.00 %

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EXECUTIVES

Garrick J. Rochow
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Jason M. Shore
Treasurer & VP of Investor Relations

Rejji P. Hayes
Executive VP & CFO

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Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

Michael P. Sullivan
Wolfe Research, LLC

Nicholas Joseph Campanella
Barclays Bank PLC, Research Division

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Presentation

Operator

Good morning, everyone, and welcome to the CMS Energy 2024 Year-End 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. [Operator Instructions]

Just a reminder, there will be a rebroadcast of this conference call today, beginning at 12:00 p.m. Eastern Time running through February 13. 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. Jason Shore, Treasurer and Vice President of Investor Relations.

Jason M. Shore
Treasurer & VP of Investor Relations

Thank you, Harry. 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.

And now I'll turn the call over to Garrick.

Garrick J. Rochow
President, CEO & Director

Thank you, Jason, and thank you, everyone, for joining us today. In the words of James Brown, I feel good. CMS Energy, 22 years of consistent industry-leading financial performance every year for over 2 decades. You can count on us to deliver. We do that through our simple but powerful investment thesis, coupled with disciplined execution across our electric and gas businesses. We take our legacy of service and excellence seriously at CMS Energy. We play to win every day. We have a lot to celebrate about 2024. And today, I will highlight a few key successes, among many, to demonstrate how we deliver for all of our stakeholders year in and year out.

First, our work to improve customer reliability. Our 5-year Reliability Roadmap, which we filed in 2023, set bold commitments to improve service to our customers, to never have more than 100,000 customers disrupted per event and have service restored within 24 hours. And we are making progress. In 2024, we restored power to over 93% of customers within 24 hours compared with 87% in 2023, and the average customer experienced 21 fewer power outage minutes. And although there is still more work to do, it is clear the investments are making a meaningful difference.

I'm also pleased with the work on the electric supply side. In November, we filed our 20-year renewable energy plan. This critical long-term filing highlights the thoughtful changes we will make to our generation portfolio as we transform our system for more renewables and a diversified mix that includes 9 gigawatts of solar and 4 gigawatts of wind over the next 2 decades. This filing details to the commission our commitment to leading the clean energy transformation and achieving the targets established in Michigan's 2023 energy law. Most importantly, it demonstrates our commitment to diversify the energy portfolio and invest in supply infrastructure to serve our customers with reliable and clean energy in the most affordable manner.

And of course, our gas business continues to grow. I'm extremely proud of our coworkers' efforts to build and replace infrastructure that ensures a safe, reliable and clean natural gas system. The system has proven invaluable to customers throughout the year and even more recently, in the extreme cold experienced in January. I could give many more examples and some are listed on this slide, which speak to the winning program at CMS Energy and our further proof points of our investment thesis in action, ensuring you can count on us to deliver value for all stakeholders every year.

On Slide 5, we've highlighted our 5-year $20 billion utility customer investment plan, up $3 billion from our prior plan, a significant and needed increase designed to deliver better customer service through improved reliability, both in distribution and supply, driven largely by our Reliability Roadmap as we bolster our electric distribution system and by investments in our supply portfolio as we expand our renewable pipeline to meet the energy law. This plan supports 8.5% rate base growth through 2029.

In addition to the robust customer investment plan, we have growth drivers outside traditional rate base. These are important and sometimes overlooked, so let me spend a moment here. The financial compensation mechanism, which allows us to earn on PPAs, grows during the 5-year period, offering approximately $20 million of incentives by the end of the decade and continues to grow thereafter as we secure additional PPAs. There's more than $60 million per year of incentives through our energy efficiency programs, enhanced by the energy law. We also expect incremental earnings from our nonutility business, NorthStar Clean Energy, as we continue to see attractive pricing from capacity in energy sold at Dearborn Industrial Generation, or DIG.

I want to take a moment to highlight the long runway of customer investments, which are incremental to our 5-year plan and give us confidence in our financial performance and continued growth of our company. Slide 6 shows the detailed filings we expect over the next 10 years and beyond, which will be incorporated into future 5-year updates. On the slide, you can see key investments in the electric distribution system to improve reliability for our customers through rebuilds, undergrounding, hardening and technology, $10 billion of opportunity not in the 5-year plan. In the middle of the slide, the renewable energy plan, an ambitious and thoughtful plan to achieve 60% renewables by 2035 as required by the energy law and in response to significant load growth in our service area, providing for additional wind and solar resources, $10 billion of opportunity not in the 5-year plan. And finally, the 2026 Integrated Resource Plan filing, which will shore up the intermittency of renewables, build out battery storage and deploy clean energy required under the energy law. The modeling for this filing is underway and will provide additional customer investment opportunities, altogether well over $20 billion that is not in the 5-year plan.

Now let's talk about our formula to keep rates affordable for our customers to accommodate these needed investments. You know our track record. You've heard me share in the past about our deliberate and sharp focus on taking cost out, whether it is episodic cost savings through plant closures or renegotiating PPAs, operating our plants better than the market, leveraging the CE Way for process improvement, the use of digital technologies to improve efficiency or strong economic development. I'm confident in our ability to keep bills affordable while delivering on the needed customer investments. Ensuring every dollar is maximized and adds value.

Speaking of economic development, I've said it before, Michigan is in a renaissance of growth. Our 5-year plan now incorporates the significant economic development we are seeing with upwards of 2% to 3% annual load growth. We feel really good about the quality of growth we are -- we see materializing across our service area in the state, both data centers and manufacturing load. While we see a nice mix coming to the state, the manufacturing growth brings with it jobs, supply chains, commercial activity, housing starts and residential growth, which allows us to couple customer investments with affordability as we spread fixed costs over a larger customer base. We are committed to growing Michigan, and we are pleased with what we've contracted and the now 9-gigawatt pipeline of opportunities not yet in the plan. We work hard every day to win our customers' business, and we are honored when businesses see the value in investing in our state and our service area.

Jumping to Michigan's regulatory environment, we continue to see a strong and supportive energy policy that ensures timely recovery of investments and incentives above and beyond stated ROEs as well as constructive regulatory planning mechanisms like renewable energy plans, integrated resource plans and investment recovery mechanisms that streamline the rate case process. In 2024, we delivered successful outcomes in our electric rate case, settled our fourth consecutive gas rate case and saw support for our distribution investments through the Liberty audit. For 2025, we expect a constructive outcome in our electric rate case with an order by the end of March. Our gas rate case is in the early innings, but we expect good support for the needed investments to keep our system safe. And as I shared earlier, our renewable energy plan with an expected outcome in late Q3 of 2025 is something to look forward to, given the large amount of renewables needed to meet the energy law and the growing demand we're seeing across our service area.

Now on to the financials. We delivered adjusted earnings per share of $3.34, toward the high end of our guidance range. For 2025, as you might expect, we are raising our 2025 guidance off 2024 actuals from $3.52 to $3.58 to $3.54 to $3.60, which represents 6% to 8% growth, and we continue to guide toward the high end. We also continue our long-standing tradition of compounding off actuals, providing our investors with a higher quality of earnings. Longer term, we continue to guide toward the high end of our adjusted EPS growth range of 6% to 8%, which implies and includes 7% up to 8%. Our dividend policy remains unchanged. We continue to target a dividend payout ratio of about 60% over time.

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

Rejji P. Hayes
Executive VP & CFO

Thank you, Garrick, and good morning, everyone. As Garrick highlighted, we delivered strong financial performance in 2024 with adjusted net income of $998 million, which translates to $3.34 per share and towards the high end of our guidance range.

The key drivers of our 2024 financial performance included constructive regulatory outcomes, a solid beat at NorthStar, cost performance fueled by the CE Way and a variety of nonoperational countermeasures, which more than offset the many challenges we saw throughout the year. For the second year in a row, we experienced significant weather-related financial headwinds, primarily in the form of mild winter temperatures in the first and fourth quarters. In fact, per our records in 2024, we had the warmest winter in the last 25 years based on heating degree days. Yet despite these challenges, we managed to offset the weather-driven headwinds without compromising our commitments to our customers, communities or coworkers.

To elaborate on the strength of our financial performance in 2024, on Slide 11, you'll note that we met or exceeded all of our key financial objectives for the year. To avoid being repetitive, I'll just note that we successfully invested $3.3 billion as per our original guidance to make our electric and gas systems safer, more reliable and cleaner on behalf of our 3 million customers at the utility. We managed to do this while funding the business in a cost-efficient manner, largely through operating cash flow, well-priced bonds at the utility and tax credit transfers in the inaugural year of this new financing vehicle. This funding strategy enabled us to maintain our solid investment-grade credit metrics and associated ratings as affirmed by each of the rating agencies over the course of the year, most recently by S&P in December.

Moving to our 2025 EPS guidance. On Slide 12, you'll note the rebasing of our 2025 adjusted EPS guidance off of actuals. For additional clarity, our 2025 adjusted EPS guidance increased by $0.02 per share on the low and high ends of the range, commensurate with the amount by which our 2024 adjusted EPS of $3.34 exceeded the midpoint of last year's EPS guidance range. Our increased 2025 EPS guidance implies 6% to 8% growth with continued confidence toward the high end of the range, as Garrick noted.

As you can see in the segment details, our EPS growth will primarily be driven by the utility, providing $4.01 to $4.05 of adjusted earnings as we plan for normal weather, constructive rate case outcomes and earned returns at or near authorized levels. At NorthStar, we're assuming an EPS contribution of $0.18 to $0.22, which incorporates a planned maintenance outage at DIG, offset by ongoing contributions from NorthStar's Clean Energy business. Lastly, our financing assumptions remain conservative at the parent segment with the expectation of approximately $1.3 billion of new HoldCo long-term debt and up to $500 million of equity to support the increased capital plan at the utility. Our 2025 guidance also assumes the absence of liability management transactions.

To elaborate on the glide path to achieve our 2025 adjusted EPS guidance range, you'll see the usual waterfall chart on Slide 13. For clarification purposes, all of the variance analyses herein are measured on a full year basis and are relative to 2024. From left to right, we'll plan for normal weather, which in this case amounts to $0.39 per share of positive variance given the expected absence of the atypically mild winter temperatures experienced in 2024. Additionally, we anticipate $0.21 of EPS pickup attributable to rate relief by the residual benefits of last year's successful gas rate case settlement and the expectation of constructive outcomes in our pending electric and gas rate cases. Outside of the general rate cases, we also expect to see earnings contributions from our renewable investments as construction of these projects progress. As always, our rate relief figures are stated net of investment-related costs such as depreciation, property taxes and utility interest expense.

As we turn to the cost structure in 2025, you'll note $0.03 per share of positive variance due to the anticipation of continued productivity driven by the CE Way. We also expect a healthy reduction in operating expenses attributable to the closure of our remaining coal units midyear, which will be largely offset by increases to vegetation management and other electric reliability-related cost categories, all of which align with our pending electric rate case. Lastly, in the penultimate bar on the right-hand side, you'll note a significant negative variance, which largely consists of the reversal of select countermeasures in 2024 and expected capital costs associated with the aforementioned parent financings. We're also including the usual conservative assumptions around weather-normalized sales and taxes, among other items. In aggregate, these assumptions equate to $0.37 to $0.43 per share of negative variance. As always, we'll adapt to changing conditions throughout the year to mitigate risks and deliver our operational and financial objectives to the benefit of customers and investors.

On Slide 14, we have a summary of our near- and long-term financial objectives. As Garrick noted, from a dividend policy perspective, we're targeting a payout ratio of about 60% and anticipate remaining in that area over the course of our 5-year plan. Given the elevated cost of capital environment and the breadth and depth of customer investment opportunities before us, we continue to believe that it is prudent to retain more earnings to fund growth.

From a balance sheet perspective, we continue to target solid investment-grade credit ratings, and we'll continue to manage our key credit metrics accordingly as we balance the needs of the business. As such, we intend to resume our at-the-money -- at-the-market, or ATM equity issuance program in the amount of up to $500 million in 2025, as mentioned earlier. We expect this level of equity issuance to trend down in the outer years of our plan as we increase the size of our tax credit transfer program given the substantial renewable build-out underway in accordance with Michigan's energy law. Lastly, we also expect select large multiyear economic development projects to begin coming online in 2025, yielding approximately 1% weather-normalized load growth for the year with run rate assumptions of 2% to 3% in the outer years of our plan as other large projects come online.

Slide 15 provides a look into the historical performance and estimated growth of NorthStar's DIG facility with upside potential beyond 2026, as capacity prices in Zone 7 continue to increase. Given the rising cost of new entry, we have updated the potential range of outcomes accordingly, as you can see in the bars on the far right-hand side of the chart. We remain bullish on the opportunities in the bilateral market for DIG, and we'll continue our strategy of layering in contracts over time.

Slide 16 offers more specificity on the funding needs in 2025 at the utility and the parent. The only additional financings I'd mentioned for the year are the planned debt issuances at the utility, which we anticipate being a little over $1.1 billion. It is also worth noting that we have not assumed the issuance of any junior subordinated notes, also known as hybrids, in our 2025 financing plan or in our 5-year plan, which offers a potential opportunity if we see attractive price points in the market. Needless to say, we'll remain opportunistic throughout the year.

On Slide 17, we have refreshed our sensitivity analysis on key variables for your modeling assumptions. As you'll note, with reasonable planning assumptions and our track record of risk mitigation, the probability of large variances from our plan is minimized. Our model has served and will continue to serve all stakeholders well. Our customers receive safe, reliable and clean energy at affordable prices.

Our diverse and battle-tested workforce remains committed to our purpose-driven organization, and our investors benefit from consistent industry-leading financial performance.

And with that, I'll hand it back to Garrick for his final remarks before the Q&A session.

Garrick J. Rochow
President, CEO & Director

Thank you, Rejji. I'll finish where I started and with James Brown, I feel good. But I can't hold a tune. So instead, I'll finish like this, 22 years, 22 proof points of consistent industry-leading financial performance, providing you with predictability and strong growth; compounding off actuals, which very few do in our sector, providing you with a higher quality of earnings. We had a great 2024, and we remain confident in our strong outlook for 2025 and beyond as we continue to execute on our simple investment thesis and make the necessary and important investments in our system while maintaining customer affordability. With that, Harry, please open the lines for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question today will be from the line of Julien Dumoulin-Smith with Jefferies.

Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

Let me kick it off here -- look, let me just kick it off on something a little bit more timely here. Just with respect to the permitting, you guys have a lot going on the renewable front. I'd love to hear your thoughts about the ability to execute in this environment. You guys specifically have wind in your outlook. I'm just curious to get your thoughts here just given some of the backdrop here on the ability to execute, and especially given the permitting regime has been something of a conversation in recent times in your geography. And then I'll pivot back to some of the financials.

Garrick J. Rochow
President, CEO & Director

Well, the team is doing some amazing work and from a pipeline perspective, both on wind and solar. And I'll just give you some context of that before I jump into kind of the administration, kind of federal administration piece. We just finished up a wind project in late last year, which was very successful. We got 2 large solar projects underway. Our Muskegon solar project is 250 megawatts. We just announced this last week, another 360 megawatts we're building in Southwest Michigan. And so -- and the team has got a long pipeline. So this whole permitting thing, here's a secret to it, and it's not much of a secret. It's being on the ground, right? It's working with the locals and the local townships, local communities to get acceptance for the projects and the tax dollars that come with those projects. It's working with landowners. That's been our success. And so when it comes to specifically wind in this administration, that's particularly aimed at federal lands, and we're not doing anything offshore. And we're not doing anything on federal land, it's all private. And that's where our point of success is. And so we do see an opportunity for future wind projects. In many cases, it's in repowering, it's expansion within existing parks, and there's a couple of new projects that are underway and under consideration. But I feel good about our ability to build out these renewables. And then remember always that this renewable energy plan is an iteration. So if I got to make an adjustment in a year, we'll do that. And so that's what gives me a lot of confidence about our future and ability to continue to deliver on this important customer investment agenda.

Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

Awesome. Excellent. I know that a lot of folks are kind of curious to understand exactly how that gets implemented, if you will. But pivoting back to the financials, I mean, obviously, very nicely done here. Thank you for the updates on the load growth front. I mean can you speak a little bit to what the legislation does and especially could do prospectively? You kind of alluded it in broader terms. Can you speak a little bit more specifically in terms of what the contribution is in the 2% to 3% and what the big moving factors could be, especially subsequent to this legislation, which was fairly recent, right, in terms of the -- what's reflected in that 2% to 3%?

Garrick J. Rochow
President, CEO & Director

You're assuming -- are you talking about state legislation, just to clarify your question, Julien?

Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

Yes. Yes, apologies. Yes, I'm thinking about the sort of the data center avenue. And to what extent is that reflected in that 2% to 3%? And again, is it just a little bit too nascent given how recently some of the stuff materialized?

Garrick J. Rochow
President, CEO & Director

So I want to be really clear about our sales growth, and this is an exciting piece because it's evident in our renewable energy plan that we filed in November. It's part of our 5-year plan that we're talking about today. This 2% to 3% load growth is not a pipeline, it's not hypothetical. This is stuff that's contracted. We have a high confidence that we're building substations to support some of this load starts to come on in '25 and then continues on throughout '29 in this 5-year plan. So there's a lot of -- there's a high degree of confidence about this 2% to 3%. That's the important piece.

And then if you look forward, there's a 9-gigawatt pipeline. And several quarters ago, I talked about that pipeline. It was smaller, it's grown and it shifted a little bit to more data centers. It's about 65-ish percent data centers now. The rest is manufacturing. And that's in part due to this legislation passing, the sales and use tax. So that passed at the end of the year. The governor just signed it mid-January. And so we're starting to see a nice uplift there. And you hear like you've heard Microsoft acquiring land. We're working with other hyperscalers as well. And so -- and you've also heard about a semiconductor project in Genesee County. There's a lot of energy here, no pun intended, a lot of excitement about the sales growth here, both what we've secured and that pipeline. And so I'm excited about Michigan.

Rejji P. Hayes
Executive VP & CFO

Julien, all I would add to Garrick's comments is when you think about the 2% to 3%, just to give you additional specificity, we've got multiple projects embedded in that. I'd say 6 or 7 larger ones, and it's well diversified. So data centers are represented in that mix. But again, there's a lot of non-data center activity as we've talked about for some time, just given the attractiveness of Michigan. Remember, it's not just competitive rates. We've also got obviously good fiber network. We've got really good access to fresh water, which is attractive for a lot of these manufacturing businesses because they do include water in their processes. And we've got a lot of energy-ready sites, because we've been doing the hard work for many years now, not just over the past couple of years. So we are well prepared to welcome these opportunities into Michigan. And the opportunities embedded in that 2% to 3% in our 5-year plan, those are either signed or imminently signed. So again, there's not a whole lot of beta around those opportunities.

The one thing I would circle back to on your question about the permitting is that, as Garrick noted, all of the projects that we're executing on are on private lands. And as I understand it, the private lands are also, to some extent, in the crosshairs a bit. But I think that, that's also centered on wetlands associated with private property. And none of our projects are situated in wetlands that could be subject to federal regulations. So again, to Garrick's comments, we feel very good about our fact pattern with respect to permitting and the associated build-out of renewables over time.

Operator

The next question will be from the line of Jeremy Tonet with JPMorgan.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Just wanted to dive in a little bit, if I could, with regards to, I guess, how you feel about the regulatory environment in Michigan. There's been some concern in the marketplace with recent orders and figured it would be good just to hear from you guys how you think about things at these days.

Garrick J. Rochow
President, CEO & Director

Jeremy, you like sausage? I mean I love breakfast sausage. I got to tell you this, I got to tell you this. Like a breakfast burrito an egg scramble, I love seasoned sausage. But the reality is, like I don't like how sausage is made. No one wants to see how sausage is made, right? And I think that's the challenge. Everyone is getting wrapped around the axle about the Michigan regulatory environment. And that's just the nuances of the environment. You got the pluses and deltas. Everybody is paying attention to it. But the bottom line is, the bottom line is we get constructive outcomes, 2022, 2023, remind you of '24, like successful electric outcome, our fourth consecutive gas settlement. We'll get a constructive outcome in this electric rate case.

And so like, yes, there's this push and pull that goes on within the regulatory environment, but I'm not here wringing my hands. We -- like our job is to sweat the small stuff. That's what we do. We sweat the small stuff. We work through the commission process and we get constructive outcomes. And so when we're out there talking about 6% to 8% toward the high end, and this consistency and predictability that our investors can count on is because we sweat it day in and day out. So bottom line, we work through all that at the commission, and we get to good outcomes. And I think that's the bottom line, Jeremy.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Got it. Sausage. Understood. I just want to go -- if I could pivot to DIG for a second here. It seems like -- I think you mentioned outage. I'm just wondering how much of a headwind that is for EPS this year, if you could quantify that.

Garrick J. Rochow
President, CEO & Director

Well, first of all, I'll let Rejji walk through the numbers on that. But the teams did this were -- just like any major outage, we do these every 7 to 8 years, teams prepared, ready to execute, materials are all there. And so we've talked about this last year, and this is part of the plan this year, and it's -- there's some renewables that are part of the mix that helped with the EPS numbers and contribution from NorthStar.

Rejji P. Hayes
Executive VP & CFO

Yes. I think Garrick summarized it well, Jeremy. So yes, we'll probably lose about a little less -- or rather a little more than 50% of DIG's contribution in prior years, but that will be offset by contributions from existing operating assets. Remember, we do have a thermal generation fleet beyond DIG. We also have existing renewable projects such as the Aviator project and others. And then we also do have some multiyear projects that are underway that we expect to achieve commercial operation date or COD in the second half of this year. And so it's a combination of additional contributions from new and existing operating assets. And so that should offset DIG's contribution this year.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Right. I guess I was just thinking, I mean, guidance might have been even higher if not for this turnaround, but I understood your points there.

Rejji P. Hayes
Executive VP & CFO

Yes. Outages are a reality of the business. So unfortunately, this year, we'll have a modest DIG divot. But in the subsequent years, we expect to see additional growth, which we highlighted on Slide 15 in the materials.

Operator

The next question today will be from the line of Michael Sullivan with Wolfe Research.

Michael P. Sullivan

Wolfe Research, LLC

I actually wanted to start with Rejji just on the financing side. So do you mind just maybe bridging us a little bit from the $3 billion CapEx increase to what you increased on the equity side? Because it seems like maybe a little bit less than what we would have otherwise expected in terms of equity need. How much is maybe tied to tax credit transferability? Any additional color there would be helpful.

Rejji P. Hayes
Executive VP & CFO

Yes. I'm happy to provide some information on that, Michael, and I appreciate the question as always. So as you may recall in the past, we've talked about this sensitivity between every dollar of capital investment funded by about $0.35 to $0.40 of common equity at the holdco, and that's about where we are. If you just think about the glide path from this vintage we've just rolled out today of a 5-year plan versus the prior. And so to give you specific numbers, we're up $3 billion vintage over vintage of aggregate CapEx, and so that implies about another $120 million or so of equity. The prior plan had up to $350 million of equity starting this year. And so you add $120 million on top of that, you start to get in that $500 million range. And that's what we expect from an equity issuance perspective over the next 2 to 3 years.

And then as we get to the outer years of this plan, it does step down, and that's why I said on a long-term basis, the average will be about $450 million. And what you see is we do have -- we're expecting about $85 million or so roughly of tax credit monetizations this year, but that will step up over the course of this 5-year plan as we execute on more renewable projects to comply with the energy law.

And so we expect over $700 million of tax credit transfers in aggregate over the course of this 5-year plan, and that compares favorably versus the expectations in the prior 5-year plan, which was closer to over -- a little over $0.5 billion. So that tax credit ramp-up or that tax credit transfer ramp-up is really what's driving down the equity needs in the outer years of the plan. And I would say on the front end of the plan, pretty directionally consistent with our historical sensitivity between CapEx and equity needs.

Michael P. Sullivan
Wolfe Research, LLC

Okay. That's really helpful. And my second question, I'm going to stick with you here, Rejji. In terms of the liability management side, how do you think about if there's more to potentially do if necessary? And I know you didn't bake it into the plan, but if weather is mild again for the second or third year in a row, are there more levers to pull on that front? And then maybe if I could also tie in, like, again, where you were conservative without baking in any hybrid issuances, like is that available to you currently, you think, and just wanted to be really conservative? Yes, just trying to think about where you have some of the flex.

Rejji P. Hayes
Executive VP & CFO

Absolutely. And so I would say with respect to liability management, certainly, that was a very helpful tool in the tool kit over the course of '24 and 2023, I'd remind you. And so we did lean into those. I think the benefits are severalfold. I mean obviously, we want to peg them to weather. And so we'd have to see what weather does over the course of the year if we were going to go down that path because we view opportunities like that as transitory like weather. So we would want to peg them to weather. But I'd say, given our utilization of those over the past couple of years, I'd say there's certainly more opportunities there, but we'd have to see where interest rates go. I mean right now, it certainly makes the environment hospitable because rates have remained range-bound and fairly high, which creates the discounts on extinguishments that drive the gains. But again, we'd have to see where weather trends.

And needless to say, going on year 8 here at CMS. And as we've said before, we don't discriminate when it comes to the cost structure. And so we look broadly, whether that's tax planning, whether that's operational O&M-related flex, whether that's the CE Way, we will continue to look throughout the cost structure and execute on levers wherever we find them. And that's why we've been successful for so many years now. It's just staying paranoid, identifying risk, quantifying risk and making sure we have opportunities that exceed the risk. And so that's what we'll do going forward. That's the playbook, and I don't see us deviating from that.

Transitioning to the question around hybrids, certainly, that's an opportunity. As I think we may have talked about in the past, the real limitations there is, obviously, we'll see where market conditions are, but it seems like there's pretty good depth and appetite for junior subordinated note paper in the market. We saw some issuances recently and at pretty interesting levels, and there was quite a bit of activity last year, I think, catalyzed by Moody's increasing the equity credit they ascribed to hybrids in Q1 of last year. So certainly an opportunity.

And we were doing those long before that was -- that became a thing. And so I'd say it represents less than 10% our book capitalization. There's a threshold by S&P at 15%. And so that gives us about $3 billion of additional capacity to do hybrids. And so again, it's a tool in the tool kit. We'll be opportunistic if we see the right pricing, and that can allow us to do both credit and EPS-accretive deals from a financing perspective versus plan, we'll certainly look to do that.

Operator

The next question will be from the line of Andrew Weisel with Scotiabank.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

You covered a lot of areas. Just one quick thing I wanted to clarify on the dividend. The pace of the increase has decelerated the past couple of years. I wanted to just understand the payout ratio for 2025 should be right around your target at 61% based on the midpoint of guidance. You obviously tend to beat the guidance midpoint, as we all know. So my question is, looking to '26 and beyond, how should we think about the dividend growth? I understand it's a Board decision. Rejji, I think you made a comment about wanting to retain more earnings to finance growth. How should we think about the pace of dividend growth relative to earnings going forward starting in next year?

Rejji P. Hayes
Executive VP & CFO

Yes. I appreciate the question, Andrew. And I'll take a walk down memory lane because as you may recall, when we sold EnerBank in 2021 and at the risk of sounding self-serving, boy, that transaction has aged well. We increased the growth rate at that time, and that's when we started going toward the high end of 7% to 8%. And we just thought it was prudent to decouple the dividend per share growth at that time from the EPS growth. Also, we did have to rightsize it because we went up to like 65% payout, which we thought was not comparable versus our growtheir peers.

And so at that point, we've been on this sort of glide path of DPS growth. It was initially sort of low 6%. It's now sort of 5% to 7% toward the low end. And that has made a lot of sense as we glide path down to a 60% payout ratio. And just frankly, again, to your comment and my comment in my prepared remarks, retain more earnings so that we can redeploy those earnings into the utility growth and rate base growth. And so that will be our M.O. As I look in the outer years, again, we'll probably have pretty consistent dividend per share increases. And so you'll see that growth kind of be in the low 5% year-over-year. And I still think we'll be -- now I think I anticipate us being sort of in that sort of low 60s, high 50s range for some time.

And to your comment, we'll obviously have to confirm that our Board is supportive of that year in and year out as we always do. But it should be around 60%. Again, it may be sort of the high 50s or thereabout. But I think that, again, is the most prudent use of capital in the current environment because we've got breadth and depth of CapEx backlog that really warrants significant support from a funding perspective. And we just don't think it makes sense to sort of recycle the capital through the external markets, why not just retain more and redeploy it into the business? So that's going to be our M.O. for some time. Is that helpful, Andrew?

Andrew Marc Weisel

Scotiabank Global Banking and Markets, Research Division

It is. I certainly don't disagree. I just wanted to make sure you're comfortable going into the 50s, and it sounds like you are.

Operator

The next question will be from the line of Nicholas Campanella with Barclays.

Nicholas Joseph Campanella
Barclays Bank PLC, Research Division

I just wanted to ask just a follow-up to Jeremy's question a little bit further on like NorthStar and the DIG opportunities. Just you've outlined some of the potential upside there. But to the extent that you have just better bilateral opportunities that come down the pipeline that are incremental to that, is that still just a further extension of the 6% to 8%? Or would you kind of reevaluate at that time?

Rejji P. Hayes
Executive VP & CFO

Yes. I'm going to use 3 words, Nick, with which I think you're well familiar and our bias is always to strengthen and lengthen the plan. And so while there certainly may be additional opportunity with the roughly 25% open margin that we highlighted in the outer years of our plan, which could be recontracted at really attractive rates, just given the tightening we continue to see in Zone 7, it just gives us additional opportunity to strengthen and lengthen the plan. And I think it's worth reminding folks, and Garrick highlighted this in his prepared remarks, I mean, remember, we compound off of actuals year in and year out. And so you really want to make sure that you've got enough support to do that because it gets harder every year by definition. And so again, that's been our bias for some time, and that would be the intent.

As you can see on Slide 15 too, yes, there's open margin, there's a tightening market and there's additional opportunity, but it's also important to note, we did realize a good portion of that in this plan. And so you can see in that bar that says 2026 through 2029, we've stepped up the earnings power of DIG pretty handsomely by, again, contracting at really attractive rates. And so there's still additional opportunity on the outside looking in, but we did realize a good portion of that in this plan. Let me stop there and see if there are any further questions beyond that.

Nicholas Joseph Campanella
Barclays Bank PLC, Research Division

No, that's helpful. And then I guess my only follow-up is on the REP. Like I know it's early, but just is this something that you expect to take the full distance? Or is there a settlement potential opportunity in there, too?

Garrick J. Rochow
President, CEO & Director

We'll always look for settlement opportunities. And this renewable energy plan would be more similar to the Integrated Resource Plan. We've had success in settling integrated resource plans. And so again, I would look for settlement opportunities in that renewable energy plan. But at the latest, it will go into the Q3 of the year. And again, it's a good plan, got confidence in taking it the whole way, if need be.

Operator

Our next question will be from the line of Durgesh Chopra with Evercore.

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

All my other questions have been answered. Just one big-picture question on tariffs. If China tariffs are in effect now, as you know, and if they stay on for a prolonged period of time, just thinking about how it impacts you, especially given you have a considerable amount of renewable investment in the plan. So maybe talk to your supply chain, how you're derisking that. Just any color you could share there would be great.

Garrick J. Rochow
President, CEO & Director

Really, the team has done great work. We've really done our homework here. So just let me talk through some numbers. So when we look at direct spend across our supply chain, and we looked at it both Canada, Mexico and China, it's a little over 5% direct that it's coming from one of those 3 locations in the world. When we look at indirect spend, and so indirect, you're going with a company that might be U.S. based, but they have a spend in either again, Mexico, Canada or China, That's, again, a little over 5%. So we're talking about 10% to 12% of the overall supply chain mix. And so it's small in the context of that. But to your point, we're actively working to mitigate that. And that's, one, we've bumped up our supply stock a bit; two, we've looked at how to migrate to other vendors that are U.S. based. That's a way to deal with it as well. So that's the supply chain. So I've got great confidence in our ability to execute the capital plan and keep bills affordable for our customers.

Now the other piece is in electric and natural gas. So let me talk about that homework we've done as well because there -- as part of MISO, there are -- Canada is part of the MISO mix. But remember this, given our natural gas plants, we're typically putting energy into the market. Got great heat rates, got low cost of incoming natural gas. And that's a nice hedge. It saved our customers over a couple of hundred million dollars this year, and we'll continue to use that as a hedge if there is -- if there's any volatility or an increase in electric prices in the market. So really positioned well there.

And then gas, we bought last year, and this was a high for us, we bought about 6% of our gas from Canada. Again, and that was at a high. And so remember, we have 7 interconnects. And so I've got 6 other interconnects that I can leverage for U.S. gas to be able to mitigate that. So again, I feel like I'm in a really good spot there. The company is in a really good spot from a tariff perspective for natural gas. And then finally, and I imagine we'll get this question over time, and we looked at it in some detail, is that often you start to think about other industries.

And so often with Michigan, with our rich heritage on automotive, the question comes up, well, tariffs, how do they impact the automotive industry? And I'll remind all our investors that a little over 2% of our gross margin is in the automotive space in Tier 1 and Tier 2. So we've got a very diversified service territory, which helps mitigate some of that risk that might show up for the automotive industry. And so a lot of detail there, a lot of data. You can tell we've done our homework, but feel like we can really manage and mitigate the impact to our customers. I know Rejji wants to get on it -- into this, too.

Rejji P. Hayes
Executive VP & CFO

Yes, Durgesh, all I would add to Garrick's dissertation is that for the avoidance of doubt, we actually do not directly source any material from China. So as Garrick noted, we may have second or third derivative exposure, like I think most global and diversified businesses on the planet do. But again, we do not directly source any material from China.

And the only other thing I'd mention is that we are obviously using the plays from the CE Way when we work with our vendors. And so we do have operating reviews with our vendors, and we are working very actively with them to ask them the same questions you're asking us, what are they doing to mitigate the risk of tariffs? We're making sure that our contracts with our vendors, particularly those who do have second or third derivative exposure to some of these locations that are in the crosshairs, that there's the appropriate level of risk transfer or risk sharing in our contracts. So we are doing work with our vendors just to make sure that we've got the right level of visibility on their manufacturing footprint and what -- and make sure we have clarity on what they're doing to mitigate these risks.

Durgesh Chopra
Evercore ISI Institutional Equities, Research Division

Wow, that's really comprehensive. I appreciate all the detail. That actually just prompted a follow-up question that I was just curious about. Is there a way to think about your equipment and your supply chain, how much of that is domestic versus international? Because my thought process is this is just not China, Canada, right? This is -- this might be -- the European Union might be next here. So just how to think about domestically versus internationally sourcing equipment and other things?

Garrick J. Rochow
President, CEO & Director

Well, Durgesh, hopefully, what you heard from our earlier response is, again, we sweat the details, right? So our investors don't have to worry. I mean that's the big message here. But just going back to those numbers like from, again, Canada, Mexico, China and certainly, Rejji clarified the China piece. We're talking about indirectly about 10% to 12%, where there might be materials that are coming from those 3 countries. And so again, most of it is U.S. based, which gives us a great deal of confidence in our ability to execute the plan.

Rejji P. Hayes
Executive VP & CFO

Yes, Durgesh, all I would add is that we do principally source most of our materials domestically. Some of them are internationally sourced, but most of them are domestic. And again, I think the key really operationally is it's really important to have a diversified vendor base, and we've done that quite a bit. On the solar side, we're sourcing domestically a lot of solar to derisk. We've been doing that for many years now, not over the past couple of months, last several years. We've also broadened our footprint to sourcing from Southeast Asia with respect to solar modules, and that's been really helpful as well. So again, we've really taken an all-of-the-above approach to make sure we're well diversified and not subject to over-indexing or overconcentration in any particular area.

Operator

The next question will be from the line of David Arcaro with Morgan Stanley.

David Keith Arcaro
Morgan Stanley, Research Division

Was curious on maybe the broader kind of Michigan backdrop for supporting data centers. And I was curious, is there excess transmission capacity as you see it in Michigan or in your own fleet of on the generation side? Do you have extra like buffer to absorb data center projects in some of this load that you're seeing?

Garrick J. Rochow
President, CEO & Director

Well, I'll first start with Michigan. Michigan has been very supportive, both in the sales and use tax. And as Rejji mentioned in his earlier comments, we've worked closely with regional and state economic development organizations to help locate data centers as well as manufacturing facilities in Michigan. The biggest piece that we do and our economic development team does is help in the placement. And so there's not tons of excess transmission capacity out there, but there is advantages to where you locate in the state. And we help, along with the transmission provider, locate and try to position those across the state. And in some cases, it does require transmission build-out, requires distribution build-out. But we try to make that small so that we're able to keep the cost down, but also so we can do it in the time frames that are expected.

From a supply perspective, we feel good about our supply mix. We're continuing -- that renewable energy plan incorporates that 2% to 3% growth. We're building out those additional renewables to meet the energy law, but also for that sales growth. When we do our Integrated Resource Plan, we're going to, again, look at the needs there. So we have these filings to be able to build that out. But remember, out of the last IRP, Integrated Resource Plan, we were at a surplus. And so we've been able to leverage that as well to be able to attract these businesses to Michigan. And so again, I feel good about our ability to place them here and have the supply resources to meet that.

And the final thing I'll add to it as well is, remember, these loads don't come on all at once. And so there's timing pieces. And we work with those companies, we know those timing pieces. And so for example, we've talked about this. We know that Switch, the data center, wants to be full load by 2026. Well, we're building that. We're constructing that now. They bring a little load on late '25, and we'll have it on by '26. And so we know all those, whether it's manufacturing or whether it's data centers. And so we can stage those and make sure we have both the physical distribution and transmission, but also the supply resources to be able to meet their needs.

David Keith Arcaro
Morgan Stanley, Research Division

Got you. That's helpful. And then maybe a quick question just going back to the rate case. I know it's late in the process, but are there opportunities here to still settle broadly your individual pieces before the finish line?

Garrick J. Rochow
President, CEO & Director

I'm always open to settlement. You know that. But again, the times -- the clock is ticking on this one and we've had the PFD. And I would just offer this, staff is a really constructive starting position on this. And just as a reminder, like these are staff professionals. They do their homework. They've done a lot of due diligence in this case. They put it in testimony. It's a nice constructive starting spot, which I have a lot of confidence in that.

And then you also add our experts who bring best practices and bring benchmarking to that. And so there's a nice blend that should occur between the staff's position and the company's position. But bottom line, I have a lot of confidence we're going to get to a constructive outcome, whether it be settlement or probably more likely through a final order in March, we'll get to a constructive outcome. It will be good for all stakeholders.

Operator

[Operator Instructions] And the next question will be from the line of Travis Miller with Morningstar.

Travis Miller
Morningstar Inc., Research Division

A quick clarification on the long-term opportunities. When you put the numbers, $10 billion on the Reliability Roadmap, $10 billion on the electric, REP rather, are those opportunities that are simply outside the plan, i.e., years 6 through 10? Or are those opportunities that might come into the 5-year plan?

Garrick J. Rochow
President, CEO & Director

Right now, that $20 billion plus of opportunities is outside or incremental to the 5-year plan. As those filings progress, it's an opportunity to bring them into the 5-year plan, or to your point, add them in years 6 through 10. But as you can see, it's a rich opportunity from an investor standpoint, but they are really needed customer investments, needed from a reliability and resiliency of the system as we see higher wind speeds. As we see more frequent storms and higher customer expectations, we need to make those investments in the electric distribution system for our customers.

And then the other one is just in terms of the energy law. We have to have renewables in place, 60% by 2035. Those are needed investments for cleaner air in compliance with the law as well as the supply growth that we are seeing across the state or supply demand, I should say, that we're seeing across the state that we referenced. And then finally, important investments in our gas system to ensure the safety of that natural gas system. Now that's not on the slide, but that's another important piece of the 5-year and then the 10-year.

Travis Miller
Morningstar Inc., Research Division

Okay. Great. And then the 2% to 3% electric growth, if you end up realizing that type of growth, is there a chance that you could get off of that kind of 1-year rate case cadence, maybe extend it to 2 years? Is that a possibility as you run the numbers if you get that electric demand growth up?

Garrick J. Rochow
President, CEO & Director

We're confident that we're going to see that. So again, I'd go back because you used the word if, and I just want to make sure we're really clear about this. These are contracts, these are things where we're -- like if I take like Corning, $900 million investment, 1,100 jobs. We're bringing on the electric. We're building the substation now, bringing electric to serve them. And so like these are being realized. I just want to give that level of confidence.

Again, our approach, there's occasion where we stayed out for a year on a rate case, but our strategy is really to be in there annually to do smaller type increases to have an active dialogue with the commission. That's where we see the best outcomes and successful outcomes for our customers. And so I would anticipate that annual rate case cadence continues going forward.

Operator

With no further questions queued, I will now turn the call back to Mr. Garrick Rochow for some closing remarks.

Garrick J. Rochow
President, CEO & Director

Thanks, Harry. I'd like to thank you for joining us today. I look forward to seeing you on the road this year. Take care and stay safe.

Operator
This concludes today's conference. We thank everyone for your participation.