

On Tax—Patrick Lee of DTE Energy

Len Teti: Welcome to On Tax—A Cravath Podcast. I'm Len Teti, a partner in the Tax Department of Cravath, Swaine & Moore, a premier U.S. law firm based in New York City. On each episode of On Tax, I talk to professionals in the Cravath network about their life and work in the world of tax. We focus on the human side of tax law, highlighting the people, connections and stories that make the space such a fascinating and dynamic area of practice. I hope you enjoy this episode.

Today we're joined by Patrick Lee. Patrick is Vice President and Chief Tax Officer for DTE Energy in Detroit, Michigan. Patrick, welcome to the podcast, and thanks for joining.

Patrick Lee: Thanks for having me, Len.

Len: It's a pleasure to have you here. We've worked together in the last year or so, and it's been great getting to know you. So Patrick, as we do with all of our guests, we like to hear about how you entered the tax law, and how you got to where you are. Why don't you tell us the story, as far back as you need to go?

Patrick: I have an accounting major, and along the way I remember taking a regular income tax class. There was an advanced income tax class at the same time I was taking a business law class, and I enjoyed the tax classes more than I did the actual financial accounting pieces, even though that was what a lot of my work was in.

I always remember in my undergrad there was a professor who asked us all to write down on cards what we thought we'd be doing in five years or 10 years, or something like that. I actually wrote "tax lawyer." And I have no idea why that was at the time. But it was prophetic.

Len: So if you wrote "tax lawyer," then you knew you were going to be going to law school, is that right?

Patrick: Yeah, I think in undergrad I started to head in that direction. I actually worked for a couple of years in public accounting before I went to law school. I went to law school at Case Western. They actually had a LL.M. program there, which was a night program for people who were professionals working in Cleveland, and I was able to take several of those classes for J.D. credit.

There was a basic income tax law class, which was really interesting, and then a partnership tax class in the regular J.D. curriculum, and then I started taking some of the LL.M. tax classes. And so I was spending time in addition to the regular J.D. classes.

Len: And as you started thinking about looking at jobs for after law school, how did you design your search to sort of target the kinds of tax experiences that you thought you wanted to have at that point? Do you remember?

Patrick: This was fall of 1997. I was looking at where to go and spend my next summer, and I was looking at law firms, and that was really when accounting firms too, were making a push towards hiring tax lawyers and were heading into the early 2000s, where it's almost like these multi-practice firms.

Len: Right.

Patrick: And I ended up choosing a law firm in Detroit. It was fortunate. They were willing to commit to putting me right in with their tax group, and it was heading back home. I was familiar with some people who worked there, and it was a great experience. It kind of drove me to some of the things that I think got me to where I am today.

Len: So you come home to Detroit, a newly minted graduate of law school, and you're starting as a first-year tax associate. What was that like? What sorts of things did they have you doing, and what do you remember thinking and feeling in those early days?

Patrick: I remember thinking and feeling sometimes I was in over my head. I think every young tax associate feels that way, because it just feels like you're learning something that, every time you turn around there's some nuance that you need to understand, or that I missed. Dykema was a large Midwestern firm. I was working on a lot of partnership issues, a lot of S corp type of issues at the time, some corporate M&A type of issues.

It was very intellectually challenging. I was fortunate there though, one of the partners I worked for, I always tell people he's kind of the one who taught me to be a lawyer. He would hand-edit my memos, and we'd sit there and talk about them for hours, sometimes into the evening. And I think that's where I really kind of developed how to think through issues, and how to really write better.

I was super fortunate in that sense. At the same point, there was another partner there who really was pushing me to kind of think bigger, and say, "Hey, what do you want to do in this world? Do you want to be at a law firm, or do you want to go into this public accounting world, or go into a big corporation along the way?" And actually I ended up going, in the middle of my time at Dykema, going and clerking for the Tax Court, and it was actually his pushing and his connection that pushed me to the Tax Court to experience that.

Len: So you had this opportunity to sort of stop and think about what kind of development you wanted to have in your career, right? Which is pretty fortunate, right? A lot of folks will start at a law firm and they sort of feel underwater and they'll just do all these tasks, and then they'll wake up 10 years later and they will have 10 years of experience, some of it quite valuable. But they would not really have had the opportunity to stop and think, "What do I want to develop?" And you had a partner encourage you to stop and think about that.

Patrick: Yeah, absolutely. I don't think that is really the norm. I don't think you'd often run into that. I think it was a situation where he was putting my interest above his own, or you know, just thinking about me as a person. I thought that was really quite an impactful thing in my life.

Len: Did you move to Washington to clerk for the Tax Court?

Patrick: I did. I moved there in 2001. I clerked for Judge Gale, who's still on the Tax Court today. The experience with Judge Gale was amazing. I was there for two years and got to experience the government side, or the non-private practice, side of it. And one of the things that struck me is that when I was working with Judge Gale, a lot of times the Tax Code's the only contact that some people really have with somebody on their side in the tax system.

And I remember having a case that maybe involved \$3,000 worth of tax, but we treated that with the same care as a multimillion-dollar tax decision, right? It was that important, and kind of stuck with me that people were really getting a first-class review in his attention to things.

Len: It seems that the tax issues you and I deal with today must be very different than the tax issues that come across a Tax Court docket. And so I imagine while you learned a lot of different substantive areas of the law, your real learning was about a process and an understanding about how taxpayers engage with the government. Not just by paying tax, but by challenging it or asking questions when they feel like their positions have not been properly understood or adjudicated.

Patrick: I'd say that's true. There were a couple of very large technical cases that went through the court while I was there. But for the most part it was much more procedural and much more understanding how a record is built, and understanding how the judges approach the technical issues that they have to deal with. It was a little bit of a sidestep of an experience, right? As opposed to being on this track of constantly dealing with high-end, high-speed technical issues, and kind of stepping aside and really being able to think about things and understand how the law is built, and how to look at congressional intent. I spent more time understanding legislative intent, and understanding the different forms of it, and what a member of Congress is actually voting on when they're voting on a bill, what that means to the tax law.

It created a lot of intangible experience that has been used throughout my career in different levels, and at different times. It's hard to say, "You know, I wrote this memo based on my experience." It's more of, "My experience fed my thinking in a direction that has been beneficial to myself and my clients, or my company along the way."

Len: Right, and so it's now 2003. You've clerked for two years, and you've got a decision to make about, first, what kind of tax job you're going to take next and also where. How did you think about that?

Patrick: I know along the way I started to decide that I enjoyed the more transactional type of job. I started thinking about returning home, and I ended up going back to Michigan and back to kind of the same group then.

Len: I see. I gather that you did sort of similar tasks to what you did before, but at a more senior level. And of course you had this broadening experience at the clerkship. So talk to me about your decision to leave Dykema, and what you talked to your partners about and what went through your mind as you thought about taking the next step?

Patrick: I would say that was always one of the hardest decisions I think I made in my career. I enjoyed the people I worked with. I kind of understood where I was in the world there. One of the things I saw happening, though, both within myself that I enjoyed and kind of where the market was going on things is I decided I was much more driven toward the transactional side. And I really wanted to work on mergers and acquisitions and sort of large-scale tax issues. And while a very good practice that I had there, it was not a big public company practice.

And so I ended up making a decision to move over to a mergers and acquisition group at Ernst & Young at the time. It just felt quite unnatural to be leaving something I was comfortable with to something that I didn't really know that well, but thought it was the right direction to go for my career at that time.

Len: So I have a good sense myself about the work that you were then doing at E&Y. And we've sort of worked with a lot of the same people. Because Cravath, we work with some of the E&Y M&A teams a lot. But tell me about how that perspective working on transactions from kind of a non-legal perspective as a formal matter broadened your development?

Patrick: When I transitioned, what I really became focused on was not just the writing of a technical legal analysis, but how to take the results of that analysis and think about what it meant to the transaction, as a whole, that you're working on. Both how to model out an NPV, how to talk about the risk associated with achieving that. How to think of the tax accounting issues that could flow from it. And then spend a lot of time having to explain those kind of things to CFOs or other transactional-type financial people who are not necessarily tax experts.

So it involved distilling the tax technical into what it actually means and what the risks are that are associated with it. That was a big transition, both in myself personally and in my career, as far as the way I approach things and the way I thought about tax issues.

Len: This is a really useful point. Let's stop here for a second. As a tax lawyer, it's really important not just to know the right answer. You've got to anticipate what your client is going to do with that advice. And as an advisor, you need to realize that you don't get to make the ultimate business decisions, but it's not enough to just tell your client the answer is "X" or "This is deductible." Or "No, you can't do it this way." Or "It's includible in next year's income" or whatever the answer is. You need to give that advice to the client and then say, "So here are what I think your choices are." Right? "Here's some theoretical choices, here's some practical choices. And I can tell you based on having dealt with your counterparty in this deal over the last two months that here's how they're likely to respond."

The client will find that to be very useful. And then in the end, the person you're talking to will have to make a judgment, right, will have to make a decision about what to do. It's a really useful observation, Patrick, that you've made about how you realized this distinction as you grew into this role.

Patrick: It's kind of funny when you say it. I spent so much of my early career and my training trying to get the right answer. And then you find out that when you finally are able to get the right answer, that you're nowhere near done. You've still got a long way to go. It's not good enough to just be giving the right technical answer or filing the return on time correctly. It's making sure that we're hearing what our business unit partners are trying to do, and we're able to give them that insight as we move along. Because it feels like the world is moving so fast from a financial perspective. And everybody expects so much that to stay up and kind of stay ahead, it's those skills that make those tax professionals more valuable.

Len: Yeah, it's funny. I think it might be easier to learn this if advisors started out as clients first. Because then they would see a bunch of different advisors come through and say, like, "Oh, well I really liked how this person explained this." For someone like me, I'm likely going to be on the private advisory side my whole career. And so I will never really understand exactly how my advice is perceived. It's a hard skill to perfect, but it's especially hard as a young professional, if you're not even aware that it's happening.

And so it takes some time to just be on conference calls, and be in meetings, and close deals. To even observe that, "Wow, this tax issue I spent so much time on two months ago isn't really the point anymore." It's how it's being used and how the agreement was drafted to reflect the advice that's actually the critical part.

Patrick: It's a definite skill that has to be learned I think for people to advance in the profession. I think it's hard to do, and I think it's probably really hard to train people. Again, everything moves so fast, it's probably harder and harder to spend the time and train people. When I go back and I say, when I started my career a partner who would sit and hand-edit memos and sit there and talk through them and challenge me on them made such a difference, I think, as far as just the way my brain approaches issues and analysis and things like that. And I just don't know if that happens that much in this world anymore.

Len: It's certainly been very hard over the course of the last two years to do it that way. But we try and it is a good lesson that there are really no shortcuts to it. I remember being quite demoralized as a second- or third-year associate that I just wasn't good at this yet, the way I wanted to be. And the partners you work with are such pros that they make it seem easy. And the encouragement I got from them along the line was, "It takes time. It takes practice." And so my advice to the law students and younger associates who are listening, and I think this is consistent with what you're saying, is you just kind of got to let it happen to you. You got to put in the hard work and the effort and the energy and sharpen the skills. But these things really require many years to develop and enhance.

I guess I'm not really sure how you ended up at DTE. Was DTE a client of E&Y's or did you make the jump in a different way?

Patrick: No, it was actually a head hunter call. I was working on a lot of M&A transactions. Now, it was a time when Detroit was going through a lot of bankruptcies, right? So I was getting a lot of bankruptcy tax work, which is how we get some mutual acquaintances, I think.

Len: Right.

Patrick: And it was great, but I also, at that point, had two young children and was starting to think about whether I would go in-house or something that would be either less travel or just less of a demand. And I had started to think about an in-house job and I got a call from the head hunter about DTE, and I'll start by saying it's been the greatest decision I ever made. And it was for various reasons. But what I'll say at the time when I got the head hunter call is if you lived here in Michigan, you'd think of DTE just as your electric utility, at least where I was. And that's kind of what I grew up with. And I remember saying to myself like, "Wow, what am I going to do? Go calculate depreciation on a power plant all day, every day? I just don't know."

And so I had the call with some people here and came to find out that number one, the utility industry and the energy industry is very interesting from a tax perspective. DTE specifically has been doing all these partnership tax equity type transactions in our non-reg space. And partnership transactions really interested me the most when I was at E&Y, and so I started to get really fascinated with it and made a decision to come. And I always tell people it's been like the best balance. I don't think I've ever had a boring day there. Also, short of during our spinoff transaction recently, it's been very manageable from a personal and life perspective too. So it's been a great place to be a tax lawyer actually, and to be a tax professional.

Len: So, Patrick, last year when we worked together on a transformational transaction for the company—when it spun off a significant line of business and separated into two companies—I got this sense from working on that transaction that one of the things you had to manage was the process, right, of splitting up internally and leading a team through that kind of separation. I wonder if you could talk about how your experience at DTE prepared you for that kind of leadership and supervisory work, aside from just the kind of execution of separating colleagues and business lines?

Patrick: Sure. Like you said, it was a big transaction, huge for DTE, and we spun off a midstream pipeline business into a new public company.

And we have a relatively small 22-person tax team which does a lot. Everybody's busy throughout the year. And then you throw in this transaction where there is the legal side of working on the tax opinion and making sure we got that right. We had to get it tax free and make sure it was treated that way. At the same time, there's all these—so many members of my team were working on actually separating the actual operations piece, right? And all the tax reporting. And you get to realize what a major undertaking that was.

The same people on my team, who also had a day job before this all started, were also working on getting the financial statements. You have to go back and prepare sort of historic financial statements for this new entity on a standalone basis. And tax plays such a huge role in that. There were parts of the business that had nothing to do with the spinoff, so we were still doing the work that we had to do there. I'm fortunate to have a pretty amazing team who worked on it. We had really good advisors, obviously, to help us through the various pieces of it.

It was, I think, one of the biggest challenges and professionally rewarding things to have worked on and actually completed that I could have imagined. I remember back in law school, I was thinking, "Wow, it'd be really cool to work on spinoffs." And you guys do it all the time, but you know, we're actually doing one.

Len: You're also sort of uniquely positioned, because you were the head of the tax function kind of leading a team. But the GC at DTE used to have your job.

Patrick: Yes.

Len: And so she had a lot of understanding about how tax worked and also the pressures that you were going to be facing as you sort of did your day job and also separated.

Patrick: Yes, JoAnn Chavez, who is our general counsel, was our VP of tax before she held the general counsel role. And her and I have been working together for years, and she's both personally and professionally really been supportive of my development here. Not only has she supported me, she's really challenged me to become a better professional and understand sort of the things I need to do to really lead a team both in the day-to-day and through transactions like we went through. Going back to your comment about the spinoff, I think we have a pretty amazing team at DTE. I think I've been fortunate enough to have that support and sort of push there earlier in my career. And we were able to do this transaction, which as you know, she played a major role in the legal side of all of it too.

Len: What has the company done to kind of help you not just as a professional, developing your own professional skills, but in terms of your HR skills, your leadership skills? Leading a team requires a whole different set of skills than calculating tax provisions or the other kind of tax technical things that we do.

Patrick: I've been fortunate enough through my career to actually have received coaching from a management perspective of how to connect better with people, how to understand what's going on with people, how to make myself better and make the team better. If you think about the normal tax professional, you come either through an accounting program or you go to law school and you're into tax and you get into the really technical. When you get to a leadership role the idea is to make the most of all those technical people who are working on your team, and a lot of that has to come with them being able to have their own energy, and how do you keep energy up for people when everybody's working hard, and these things are so challenging.

Len: Well, the members of your team that I've seen are great, and I've gotten the sense from watching you all work together that all the hard work you've put into this part of your personal and professional development is really paying dividends. it's obvious.

Patrick: I'd like to take the credit but I think I was blessed with a good team here.

Len: One other thing I wanted to ask you, Patrick, before we transition to the last part of our podcast where we talk about what we do in our spare time. The sense I've gotten, both working with you and visiting you after the deal closed in Detroit, was that you're sort of born and raised in Michigan and you're now working at one of these sort of prominent Michigan companies. And I've gotten the sense that you take a great deal of pride in that, and I think that certainly makes sense. Do you feel that on a regular basis or not?

Patrick: I do. You know, I've lived in D.C. and I've lived in Cleveland, which is very similar to here, but I really love the life that I have here. So from a personal perspective I'm very fortunate. I do take a lot of pride in DTE specifically.

We're based in Detroit, which has gone through hard times and continues to be a city that's challenged. We do a lot. I mean, DTE shows up in a lot of places, both directly and through its foundation. It's really great to be able to work for a company that's so respected around town for the things that it does to help people. It's a pretty big deal. I definitely feel that; hopefully it shows to some degree.

Len: It does show. I happen to live in the town where I grew up, but it's different because I take the train every day to New York City when we're going into the office. And I don't have quite the same feel. But I sense it very strongly with you, and it made a great impression on me when I visited.

So let's talk about your sort of personal experience, sort of in the middle of your career. What do you like to do in your spare time when you're not doing tax? What's keeping you busy?

Patrick: Well you know I have two boys who are kind of my joy of my life, right? We got to play a little bit of golf with them when you were here.

Len: Before the thunder and lightning, yes.

Patrick: Before the storms hit. And as you could see they were sharks, right? I think they ended up beating us like five and four on those holes. And they beat us five holes and then we got rained out. I spend a lot of time with them doing things. I coach their sports teams and still do until they surpass my ability to coach with their own skills and obviously I really enjoy that.

I think the other things I've really gotten into in the last several years are cooking and motorcycle riding. I actually started out a few years ago just with some friends like locally riding, and I've gotten into longer-distance rides on adventure bikes where you can go and camp places and those kind of things. So I've started to really get into that recently and trying to figure out some sort of a way to do a West Coast trip, where I ship the bike partway out and take it up into the mountains of the Pacific Northwest and stuff like that.

Len: Wow. So when we're talking about bike trips, we're talking about hundreds of miles a day, maybe on a bike?

Patrick: Yeah, several hundred.

Len: Wow, that's awesome. And we're talking about relatively high-performance bikes as I recall, right?

Patrick: Yeah. I have a Harley that I started riding around locally, and it's a great bike. And I also have a BMW adventure bike that's the one I would take the distances.

Len: That's great.

Patrick: I don't advertise it all that much but it's become quite a passion.

Len: It's an awesome departure from what I think most people would think of as the stereotypical tax lawyer personality. So I think it's great, and it sounds like a lot of fun.

Patrick: Yeah, it's a lot of fun.

Len: Well, Patrick Lee, the Vice President and Chief Tax Officer for DTE Energy has been our guest today. Patrick, it's been a real thrill to have you join us. Thanks for doing this.

Patrick: Thanks a lot, Len.

Len: That's all for this season of On Tax—A Cravath Podcast. We'll be back in the fall with a full slate of new conversations. In the meantime, be sure to tune in next week to hear a re-airing of one of my favorite discussions: our special recruiting episode with Cravath partners Lauren Angelilli and Ting Chen.

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