

TRANSCRIPT

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Good morning.

Chairman Accavitti, members of the committee ... It is an honor and privilege to appear before you today to talk about an issue that is of fundamental importance to Michigan and its future – a new electric energy plan for our state. It is important because if we do it right, it will ensure Michigan's electric energy consumers will have clean, affordable and reliable supplies of electricity far into the future.

At DTE Energy, we say the electricity and natural gas that we deliver energize the progress of society. If the men and women of Detroit Edison, MichCon and the other members of the DTE Energy family could look back through time, they would see a line of customers stretching to before the Civil War. That's how long we've been meeting the energy needs of this great state.

We've helped it to grow. We've been with it through good times and bad. We've partnered with customers to help them solve significant problems. We've teamed with business and community leaders to make Michigan and its communities better and more attractive places to live and work.

Now Michigan is facing an economic downturn perhaps more serious than any it has ever faced. We at DTE Energy want to help resolve Michigan's economic woes. And we think we can play a constructive role.

Despite the condition of our economy, within the next decade, Michigan – and the rest of our country for that matter – will need more electricity ... a lot more. Carbon-free nuclear power, the development of renewable energy resources, clean coal technologies, and an aggressive focus on energy efficiency all are part of the mix.

Right now, however, the reality is that our ability to invest in new power plants and other energy alternatives is severely restricted by an unworkable hybrid regulatory structure which was created by Public Act 141 of 2000 and is unique to Michigan. As you know, it leaves Michigan's electric industry partly regulated and partly unregulated. This troublesome hybrid structure creates uncertainties for **all** electricity suppliers. In today's troubled economic times, we simply cannot afford to continue the current policies. We need bold and decisive action to create a new electric energy policy for Michigan.

To create a better future, we must first understand the present.

Today, under PA 141, customers have the option to seek electricity from either a regulated utility (which sets rates to recover investment over long time horizons and thus provides price stability) or from the market. Customers may choose from whichever provides the lowest prices at any given time. This sounds great until we examine its consequences. The seesaw nature of this hybrid leaves would-be investors with no assurance that customers will stay long enough in either of the two choices to invest a billion or more dollars in a baseload power plant. Between 2003 and 2006, DTE Energy and Consumers Energy experienced a swing of over 3,000 megawatts of load from the regulated utilities to alternative suppliers and back again. That's equal to at least three baseload power plants.

But I'd like to demonstrate how a utility's investment in a baseload power plant under Michigan's hybrid structure would create problems for both regulated utility customers and the utilities that serve them.

In the current marketplace, a new power plant would increase costs to traditional utility customers and temporarily pull down prices on the wholesale market. With regulated prices up and market prices down, utility customers would be encouraged to move to alternative suppliers for the lower market prices. With more customers moving to the unregulated market, more of the utility's fixed costs would be shifted to the remaining utility customers, leading, of course, to more of them switching to unregulated suppliers, driving an even bigger share of the fixed costs onto the shoulders of utility customers.

The bottom line is that Michigan's hybrid would create a death spiral that hurts all of Michigan's electric consumers. Thus, Michigan's utilities have no reason to build a new power plant.

I would like to focus on what actually happened to customers during the 2003 – 2006 timeframe. I already mentioned that 3,000 megawatts of supply swung during this era. Yet in sheer numbers, even when market prices were at their lowest, less than one percent of Detroit Edison's customers "left" to purchase their electricity from an alternative supplier. Of course that one percent of customers represented roughly 20% of Detroit Edison's retail sales and more than \$500 million dollars in revenues. That's because the alternative suppliers, aided by artificial market subsidies and credits, cherry picked only the "best" customers. Alternative suppliers were not required to – and indeed did not choose to market to residential or small commercial and entrepreneurial business customers. Nor did they market to credit-poor commercial customers.

Meanwhile, the fixed costs of the utility's power plants remained. Because Detroit Edison retained the "obligation to serve" (even those who left), the other 99% of customers who stayed were saddled with paying the bills for those fixed

costs. In 2006, our rates increased by more than \$300 million to make up for the loss of power sales to the mainly out-of-state suppliers. This rate increase would have been unnecessary without Customer Choice.

Making matters worse, Detroit Edison customers had to pay again when customers returned to the safety of regulated rates. Keep in mind that the reasons customers returned is that market prices were – and continue to be – higher than regulated rates. When many customers returned to regulated service in the 2005-06 timeframe, we had to go to the high-priced market to buy power to serve them. The cost of that high-priced power gets spread over all utility customers, not just those for whom it is specifically purchased. In addition, due to a timing lag for recovering those costs, these same customers can jump back to market to avoid ever paying for their return to the utility. This creates the phenomenon of “heads” the utility customer loses and “tails,” he loses again.

If a new electric energy plan is adopted, including amendments to PA 141 to repeal its Electric Choice provisions, Michigan-based energy suppliers like Detroit Edison and Consumers Energy again will be able to make long-term decisions about electric supply. These decisions will be far more economical than the short-term decisions we are currently forced to make because we do not know from one year to the next how many customers we will be serving. Most importantly, the benefits of long-term decision-making will accrue to **all** electric customers in this state, not just the chosen few. We also will be able to assure hard-pressed Michigan businesses that their electricity rates will remain competitive.

Long-term decisions include investments of billions of dollars that will bring clean energy resources, jobs, and permanent tax base to Michigan, restoring hope in a brighter future for our citizens.

The decision to build a nuclear power plant could be among those long-term decisions.

As you know, I announced eight weeks ago that Detroit Edison has started work on preparing a license application for a new nuclear plant at our existing Fermi site near Monroe. This is the first step to providing clean, reliable and affordable energy for decades to come. If a decision is made to proceed, the new plant will provide thousands of highly paid jobs to skilled Michigan workers. But despite my enthusiasm, let me be clear that we have not yet made a final decision to build. Rather we are preserving our option to build at some point in the future by beginning the long and complex licensing process now.

Given the four-to-five-year timeframe for the federal licensing process, and the five-to-six-year construction period, we need to take this step immediately to have any chance of having a new plant operating in the next decade. Also, moving ahead now positions us to take advantage of the attractive, but time limited, financial incentives included in the Energy Policy Act of 2005.

As Chairman of the Nuclear Energy Institute, the trade association of the U.S. nuclear industry, I believe nuclear power makes sense for America and Michigan. But does Michigan really need a new power plant, much less a nuclear plant?

According to the North American Electric Reliability Council, America's demand for electricity is increasing *three times* as fast as resources are being added.

The U.S. Energy Information Administration predicts that by 2030, electricity sales in our country will increase by *45 percent*. Just to keep our current fuel mix, we'll need 50 additional nuclear plants, 93 wind farms (with thousands of windmills), 279 natural gas plants, and 261 new coal plants. Even if aggressive energy efficiency programs are extremely successful and reduce those numbers in half, a massive infrastructure construction program will still be necessary.

Here at home, Michigan will require at least one new baseload plant by 2015, according to the 21st Century Energy Plan, which was released earlier this year. We agree with Chairman Lark's assessment. And, while there has been debate about the growth projections and the health of Michigan's economy over the near term, we still see growth for the longer term. Additionally, Michigan's fleet of baseload plants is among the oldest in the country. Retiring the oldest plants will increase the need for additional plants.

Given the long lead times required for design, engineering and construction, the time to act is now.

So, how will we address the growing need for electricity? You'll hear a lot of talk in the coming months about energy efficiency, renewable energy, new technologies, and transmission upgrades. We need them all. But, as I told the Detroit Economic Club in February, if we're brutally honest with ourselves, they are only a part of the solution for the foreseeable future. To put it another way, we will *never* run an auto plant, a cold-rolled steel mill or a Hemlock Semiconductor facility using just windmills. Baseload nuclear and coal power plants are needed to keep them running.

We at Detroit Edison are interested in nuclear plants because they provide reasonably priced electricity at extremely high levels of safety and reliability. They produce power at a stable price without the punishing volatility of gas-fired generation. And, they emit no greenhouse gases.

Moreover, baseload plants, especially nuclear facilities, provide thousands of highly paid construction jobs and long-term employment for hundreds of engineers, scientists and skilled technicians – just the kind of new economy jobs Michigan needs. These are among the reasons that seven in 10 Americans now favor the use of nuclear energy to produce electricity.

Yet despite all the reasons why we should move forward, major barriers stand in the way. Those barriers are the topic of today's hearing. What company in Michigan, in the U.S., or anywhere in the world would be willing to make a billion-dollar investment without some sort of assurance that it could recover its costs? That's the dilemma for Michigan utilities caught in PA 141's unworkable hybrid regulatory environment. The partially regulated and partially unregulated structure in Michigan fails to provide the certainty required for the power plant investment critical to the state's future. That is why I am very pleased that you are working to take control of Michigan's energy future. Bold decisions need to be made to amend PA 141, and you are perfectly positioned to make them.

In your deliberations, I encourage you to be focused on a comprehensive solution that relies on a diverse mix of fuels and energy efficiencies. For example, we need to accelerate our development of renewable energy resources. More importantly, we need to have the right incentives and regulatory structures in place to drive energy efficiency. These resources can play a useful role in helping us meet our goals.

At DTE Energy, we have just been approved by the Michigan Public Service Commission to offer a new program called GreenCurrents, giving our 2.2 million electric customers a renewable energy option. DTE Energy is the second largest biomass company in the country, producing alternative energy through projects in Michigan and 13 other states.

We also take pride in our work on energy efficiencies. We believe that Michigan should adopt new policies to clear the way for companies to pursue aggressively programs to help consumers and businesses be more energy efficient. This is easier said than done. The challenge is to find easily understood programs that are in the economic best interest of both the customer and the utilities offering them. Detroit Edison has done this with its industrial customers. As part of

contractual agreements with our auto and steel manufacturers, a staff of 60 engineers and technicians has helped those customers save over \$400 million over the last 10 years. Our experience tells us that we can translate this success to residential and commercial customers. We just need to get the incentives right so that both the customer and the utility benefit from the programs. If we get it right, we can save Michigan consumers billions of dollars in the years ahead.

Everyone in this room understands that our economic growth is linked to affordable, abundant electricity. Current policy is failing us. Yet there are those who want to keep Michigan stuck in its current track. Among them are some who, in past weeks, testified before this committee. They've asserted that DTE Energy wants to renege on the "deal" that led to Public Act 141 and the Electric Choice program seven years ago. We did indeed support that legislation. But they conveniently forget that we said the PA 141 structure was transitional. It could not be sustained indefinitely and had to be addressed for the long term. Experience has now confirmed that PA 141 needs to be amended and that a new electric energy policy needs to be adopted ... a policy to assure the long-term availability of clean, affordable, and reliable electric energy that will power Michigan's future.

Seven years ago, when PA 141 was adopted, policymakers from one end of the country to the other were embracing the notion that competition in the electric industry would be more effective than regulation in keeping electric prices down.

Recent events have shown that to be far from true. In deregulated state after deregulated state, customers are grappling with rate shock. The tide of market-driven rate increases has touched a growing number of states where deregulation had initially been viewed as successful. Consider:

- Maryland ... where Baltimore Gas & Electric customers faced 72 percent increases.
- Illinois ... where bills have increased 26 to 55 percent on average, and where some customers have seen increases of a whopping 200 and even 300 percent!
- Ohio ... where the Public Utility Commission was so concerned about sticker shock it developed so-called “rate stabilization plans” to forestall the inevitable rate increases there.
- Pennsylvania ... where regulators are now seeking public comment on ways to mitigate potential price increases when the rate freezes end in 2010.
- Virginia ... where just last week the legislature repealed its electric choice program for all but the largest electric customers.
- And Montana . . . where legislators are on the verge of completing action on a re-regulation bill.

In fact, 34 states have repealed, delayed, suspended, or limited their deregulation experiments or are simply maintaining their fully regulated systems. Fully two-thirds of the states have turned their backs on electric deregulation.

Michigan should join the long list of states that are moving away from electric choice systems. PA 141 needs to be updated. A new electric energy policy needs to be adopted, a policy to assure the long-term availability of clean, affordable, and reliable electric energy that will power Michigan’s future.

The new electric energy policy should assure that renewable energy can be developed inside our state. The new electric energy policy should provide incentives so that energy efficiency programs can work to the benefit of all. And

perhaps most importantly, a new electric energy policy will assure that needed baseload power plants will be built in a timely fashion and in ways that ensure costs will be kept as low as possible.

You have heard testimony about the wisdom of competitively bidding Michigan's new power plants. Eighty percent of the costs associated with power plants lie in the engineering, procurement and construction (or the EPC). We agree that the EPC should be competitively bid.

We also understand the concerns of those who don't want to return to the old model of utility regulation. We agree with them, too. Pre-approval of construction from Michigan's regulators, with full input from customers regarding technology choices, environmental controls, and construction plans and costs, coupled with competitive bidding of EPC, will assure that costs are minimized and customers are protected. This leaves in the dust the old standards of "used and useful" power plant regulation with its after-the-fact reviews.

Other innovations can be adopted too. An incentive based regulatory structure would combine the best of the traditional utility regulatory model with market and performance incentives. Such a structure should include balanced incentives and penalties for key performance metrics. States like Oklahoma, Florida, and Louisiana among others, offer performance incentives that encourage top-flight performance and stipulate measures to tighten the reins on unacceptable performance.

In conclusion, it is clear that Michigan needs renewable energy, energy efficiency programs, and new power plants. It is clear that PA 141 discourages investment. New plants will minimize Michigan's reliance on the volatile energy market, and ensure that all of the state's electric customers will enjoy the benefits of a power supply that is affordable, reliable and secure for the future. But those plants will not be built under today's unsustainable regulatory structure.

The best way to proceed is to repeal the Electric Choice provisions of PA 141, adopt policies to encourage renewable energy sources and energy efficiency, and implement a new incentive based regulatory framework. We applaud your efforts to consider creating a totally new electric energy policy.

We at DTE Energy envision a Michigan whose economy has been renewed, providing opportunities for workers of all ages ... A Michigan whose need for electricity is met by a fleet of in-state power plants built by the men and women of Michigan and operated by Michigan's regulated utilities. We envision a Michigan whose generation fleet is cleaner and greener than ever ... A Michigan whose business climate is not hindered by unpredictable energy costs.

We know we can't solve all of Michigan's problems, but we can do our part to meet its need for safe, reliable, affordable electricity. We look forward to working with you in the weeks ahead as you create critically important new electric energy policy for Michigan and Michigan's electric energy consumers!

Thank you for this opportunity to speak with you today.