

Gongwer News Service
Volume #46, Report #70, Article #01
April 11, 2007

**DTE'S EARLEY SAYS CUSTOMER CHOICE MEANT TO BE
'TRANSITIONAL'**

When DTE Energy signed off on what became PA 141, 2000, officials said at the time that the structure of customer choice was meant to be transitional and one that should be reviewed to address long-term goals, Chair and CEO Tony Earley told members of the House Energy and Technology on Wednesday. Saying later that he believed the "forces and the issues are right to do it," Mr. Earley told reporters he was asking legislators to take bold leadership in repealing the statute and addressing the state's long-term electric energy needs.

"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," Mr. Earley said. "Recent events have shown that to be far from true. Maryland where Baltimore Gas & Electric customers faced 72 percent increases. Illinois where bills have increased 26 to 55 percent on average. 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. In fact 34 states have repealed, delayed, suspended or limited their deregulation experiments or are simply maintaining their fully regulated systems. Michigan should join the long list of states that are moving away from electric choice systems."

But should the Legislature move forward with that recommendation, Mr. Earley said, "No one should be satisfied with going back to how things were" before PA 141. He said the utilities have learned from have a customer choice system in place that there is a need to maintain incentives that are based on performance benchmarks so Michigan's electric market can remain competitive.

Those performance-based incentives need to include requirements for renewable energy and energy efficiency, Mr. Earley said, but he added that he is in disagreement with Public Service Commission Chair Peter Lark's assessment that a 10 percent standard for renewables by 2015 should be mandated. He said the electric suppliers should be required to hit certain targets, but that having a flat rate as a goal does not take into account the variable of what the cost for renewables will be. Mr. Earley said the state could impose a renewable target that would allow utilities to have a higher return on their equity if they meet the standard, and he added that penalties could be assessed if the electric supplier didn't reach those goals.

In terms of energy efficiency, Mr. Earley said utilities should play a big role in energy efficiency because they are already doing it with their industrial customers. Incentives for utilities to embark on a program that in essence asks people to use less power would have to be structured so that conservation methods could be put in place but the utilities would not be harmed from the loss, he said.

In a roundtable discussion later with reporters, Mr. Earley commented, "I sense the forces and the issues are right to (repeal PA 141)," but that he did not believe, and did not believe

the speaker, will be tying that to a possible 6 percent tax on utilities in a quid pro quo situation. But he did say that having PA 141 repealed "would make it easier to swallow" a utility-specific tax. After the committee hearing and before the roundtable, Mr. Earley said he went around the Capitol, which included a stop to House [Speaker Andy Dillon's](#) (D-Redford Twp.) office.

Mr. Earley said legislators should understand that a new power plant needs to be built to deal with the state's future energy needs, especially in light of the federal government requiring carbon dioxide regulators on power plants. He said when that rule comes down the pipeline there will be some plants in DTE's fleet that will simply be shuttered. Loss of those plants, which he did not number, would also hamper the state's ability to provide power. The average age of a DTE plant is 48 years old, and its newest facility is the Fermi nuclear power plant built nearly 20 years ago.

Mr. Earley said in discussing how to get a nuclear power plant up and running in the state, he has been told it will be 2017 or 2018 until one could be fully operational and that's only if DTE were to start the process now. A coal burning plant would take possibly two years less to be operational, he said.

Asked what the disadvantage would be if an alternative electric supplier built a new power plant, as competitors have told the committee they would do if the legal impediments to the market are removed (they also sent letters to the committee to that effect as well on Wednesday), and the utilities simply bought electricity from them, Mr. Earley said the other suppliers, like utilities, want stability in setting up a new plant. But no one has put a shovel in the ground to build a new plant because suppliers also want stability by locking utilities into purchasing power from them, he said.

Mr. Earley also touched on comments from competitors (See [Gongwer Michigan Report, April 4, 2007](#)) who argue that should the state repeal PA 141, it should also remove the securitization it allotted to utilities through the companion PA 142, 2000. "The bargain that was made: if you can take over two and a quarter billion dollars of our stranded costs on our two nuclear plants and make all the customers pay for those, we think we can compete," said Eric Schneidewind with the Customer Choice Coalition at a previous hearing.

Mr. Earley said utilities lost money on securitization because they only earn money on their equity base, but the securitization deal refinanced the base to 100 percent debt, not the 50/50 split in debt and equity it had before PA 142. That in effect produced a AAA bond rating that extended the term of the bond and saved customers \$270 million annually. Those savings were broken down into providing customers a 5 percent cut in their rates (\$190 million), creating a low-income energy assistance program (\$50 million) and subsidizing customers who went to choice suppliers (\$30 million). If securitization were to be repealed, costs would go up, he said.