

DTE CFO expects return to full regulation

A DTE Energy executive Tuesday predicted Michigan's "hybrid" electric restructuring model will be scrapped by legislators, with the state's electric utility industry returning to a "full regulated environment."

Re-regulation will allow utilities to invest in new baseload generation needed in the state, said David Meador, DTE executive vice president and CFO.

Meador voiced those views during a conference call with analysts to discuss the company's fourth-quarter and full-year 2006 earnings. Quarterly earnings fell to \$142 million, or 79 cents/share, from \$382 million, or \$2.14/share, in the year-ago quarter. Revenue declined to \$2.3 billion in the final three months of 2006, versus \$2.7 billion for the comparable 2005 quarter.

Full-year 2006 earnings dropped to \$433 million, or \$2.43/share, from \$537 million, or \$3.05/share, in 2005.

Revenue was virtually flat at \$9.02 billion. DTE, parent of Detroit Edison, the state's largest electric utility, and natural gas supplier MichCon, attributed the earnings decline mainly to reduced synthetic fuel production and related accounting reserves. The company's synfuel plants were idled for about four months last year before resuming operation.

DTE said its earnings outlook for 2007, excluding synfuels, is \$2.60/share to \$2.80/share. Synfuels are counted on to produce additional operating earnings of 60 cents/share to \$1.25/share.

Meador praised Public Service Commission Chairman J. Peter Lark's recent state energy plan that estimates electric demand will grow by about 1.2% annually over the next two decades and says Michigan will require at least one, possibly two, new baseload power plants by 2015.

"We're very interested in adding new generation," said Meador, stressing, however, that investment will not be made under the state's partially regulated, partially deregulated electric system.

"My sense is," he said, "Michigan is going back to a full regulated environment . . . the hybrid system doesn't work."

Although he did not mention any by name, Meador said the experiences of other deregulated states suggests the concept is not working as originally intended. A re-regulation bill is expected to be introduced in the Legislature by midyear, he added.

DTE recently announced it is pursuing a license for a new nuclear generating unit at its Fermi nuclear plant. The company has not ruled out building new coal-fired generation, either. DTE said operating earnings for Detroit Ed were \$2.03/share in 2006, up from \$1.54/share in the prior year. Driving last year's improvement were higher gross margins due to the expiration of the cap on residential rates in 2006 and customers returning to full utility service. Quarterly operating earnings for Detroit Ed were 39 cents/share, down slightly from 40 cents/share in the fourth quarter of 2005. Detroit Ed plans to file an electric rate increase application with the PSC in the second quarter, with the new rates probably taking effect by mid-2008. DTE officials did not indicate the size of the planned rate hike.