



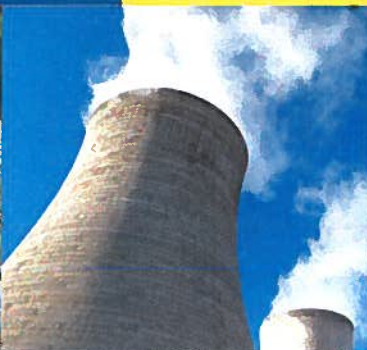
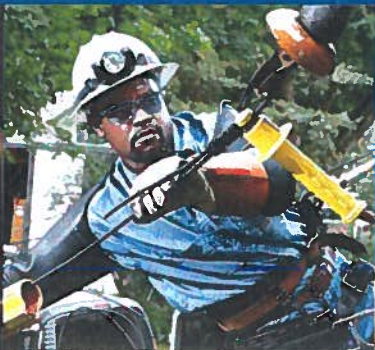
**DTE Energy®**

**House Bill 4298**

**Steve Kurmas  
President & Chief Operating Officer  
DTE Energy**

**Michigan House of Representatives  
Energy Policy Committee**

**April 13, 2015**



Chairman Nesbitt, Vice Chairman Glenn, Vice Chairman LaVoy, members of the House Energy Policy Committee, good morning. My name is Steve Kurmas. I am the President and Chief Operating Officer at DTE Energy.

I testified before the House Energy and Technology Committee last year opposing HB 5184, a bill that would have deregulated Michigan's electric market. Constructive discussions have continued and focused on how to secure Michigan's energy future in light of unprecedented industry changes. It is an honor to be invited once again to be a part of this critical policy discussion.

This morning, I would like to first address why now is the time to take action for Michigan's energy future. Second, I would like to discuss how fully regulating Michigan's electric market ensures a reliable and affordable energy future for our state as it prepares to retire 60 percent of its coal fired generation.

The projected capacity shortfall in the Midwest and in Michigan, as forecasted by the Midcontinent Independent System Operator, is not just a problem in 2016. It worsens considerably over time. If no action is taken, this will result in a fully depleted reserve margin and an inability to meet forecasted demands by 2021.

Michigan can't afford to wait. It would be unsafe and foolish to run a power system without adequate reserve capacity. Reserve margins allow utilities to keep the lights on when unexpected events occur – things like extreme weather, a booming economy, or unplanned power plant outages.

During last year's Polar Vortex, MISO had a 15 percent reserve margin, and the region experienced three maximum generation emergency days. That means that every power plant available in MISO was running at full capacity, and MISO had to take additional measures, like interrupting customers, to maintain a reliable grid. The problem is real and the time to act is now.

While the capacity shortfall projections are widespread across the region, Michigan's current hybrid structure presents unique problems. While we are planning for our customers, all customers utilize the same critical infrastructure. Today, it is clear that no long-term plan is in place for the 2,000 MW of Michigan's electric load served by retail energy marketers. I want to emphasize that this doesn't just affect the 10 percent. It places the entire system and all customers at a risk.

Beyond the reliability issues posed by the current hybrid market, unfair subsidies inherent to the structure have come at a great cost to Michigan's families and businesses. We estimate that since November 2008, Michigan's utility customers have paid nearly \$1.6 billion in additional electric costs. This is simply unfair for our customers and not a sustainable model for Michigan's energy future.

Given all this, fully regulating Michigan's electric market is smart policy for three reasons:

- It helps ensure reliable electric supply is available to all customers at all times
- It addresses the unfair subsidies that Michigan's families and businesses have carried because of the current hybrid structure
- It will ensure stable and affordable electricity for Michigan's families and businesses

Electric utilities have historically been regulated. While the nation flirted with deregulation for a period of time, no state has passed deregulation legislation in 15 years - and for good reason.

When you look across the country at where baseload, there-when-you-need-it, generation is being built, it is almost all in regulated states. Prior to the deregulation trend in the 90's and immediately following it, regulated and deregulated states added similar amounts of net capacity.<sup>1</sup>

However, after 2005, less than 1,000 MW of new baseload capacity has been added in deregulated states.<sup>2</sup> Let me emphasize – only 1,000 MW of new baseload generation. Let's compare that to regulated states. Utilities in regulated states have added more than 40,000 MW of net, new power plant capacity.

Some may say that it is good for customers when generators go bankrupt because shareholders – not customers – are the ones who feel that loss. That simply isn't true. When energy companies go bankrupt, customers and communities feel it. Let's ask families and businesses in deregulated Illinois where 5 nuclear plants are at risk of shutting down. According to the Nuclear Energy Institute, Exelon's nuclear operations result in 28,000 jobs and are estimated to generate \$8.9 billion in total economic output. Shutting those plants will not just impact shareholders. It would be disastrous for Illinois' communities, families, and businesses. For this reason, Illinois is scrambling to rescue its baseload nuclear generation.

Furthermore, counting on repeatedly bankrupt companies to reliably plan for and supply infrastructure that is critical to daily human functioning is questionable policy at best.

From an affordability perspective, rates in deregulated states are on average 25 percent higher than rates in regulated states. While you can take snapshots of periods when rates in a particular deregulated state were low, there has never been a year in which overall rates in deregulated states have been lower than those in the regulated states. Deregulation has done nothing to lower rates on average. What deregulation has done, however, is crush families and businesses with volatile, unpredictable rates that swing with the market.

Rate volatility is something the deregulated Northeast has not been able to fully address. Last winter, during the Polar Vortex, deregulated customers in Connecticut were being charged rates nearly 90% to 200% higher than customers served by regulated utilities.<sup>3</sup> During that same time, some customers in Pennsylvania were seeing bills jump from \$300 to \$1,200 in one month.<sup>4</sup> Commonwealth Edison customers in Illinois were notified last summer that their monthly bills would jump 21 percent, and competing suppliers won't offer much relief.<sup>5</sup>

Customers want to know what their bills are going to look like. Last year, a survey of Michiganders found that 71 percent of the respondents favor electric regulation's price stability and service reliability.<sup>6</sup>

As president and COO of a company that traces its utility heritage to 1849, I can say that we are committed to Michigan for the long haul. Michigan is our home, it's where we live and serve, and we are proud to support smart policies that support a healthy economy for Michigan.

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<sup>1</sup> Through to about 2004

<sup>2</sup> Excluding renewable generation and net of plant retirements

<sup>3</sup> State of Connecticut Attorney General George Jepsen. 16 January 2014.

<sup>4</sup> Weiss, Todd. "Pennsylvania's electric choice program isn't working." [Lancaster Online](#). March 18, 2014.

<sup>5</sup> Wernau, Julie. "ComEd customers face big price increases." [Chicago Tribune](#). May 7, 2014.

[http://articles.chicagotribune.com/2014-05-07/business/chi-comed-price-increases-20140507\\_1\\_comed-david-kolata-power-customers](http://articles.chicagotribune.com/2014-05-07/business/chi-comed-price-increases-20140507_1_comed-david-kolata-power-customers)

<sup>6</sup> "Poll shows Michigan voters prefer electric stability, reliability; rank deregulation at the bottom of legislative action items." [Michigan Energy Deregulation Facts](#). March 19, 2014.

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Thank you, Mr. Chairman ... members of the committee, for this opportunity to address you today. I would be happy to answer any questions you may have.