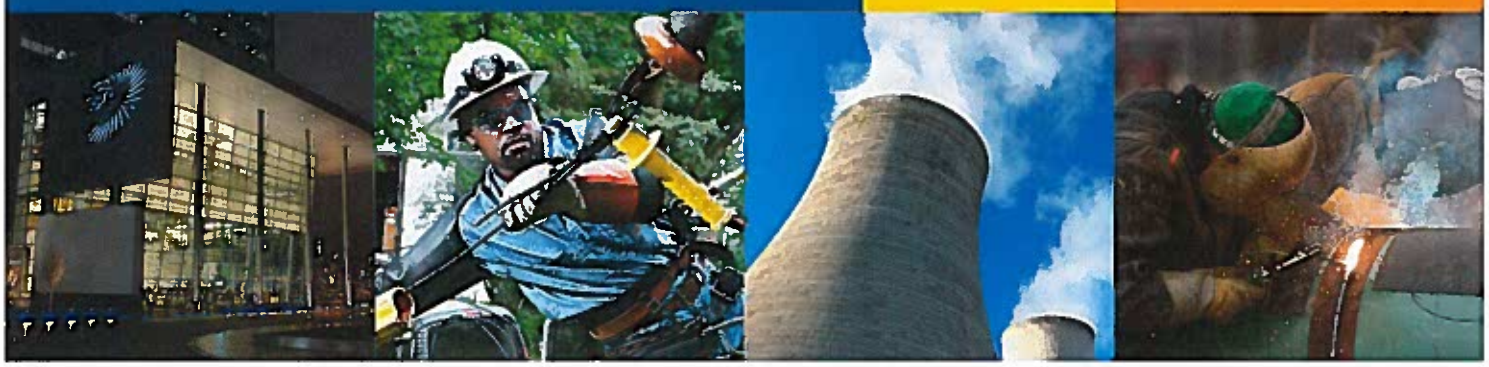
DTE Energy®

Overview of DTE Energy

House Energy Policy Committee

April 25, 2017

Jerry Norcia, President and Chief Operating Officer of DTE Energy



Good morning, Chairman Glenn, Vice Chair Hauck, Vice Chair Lasinski, and members of the House Energy Policy Committee. My name is Jerry Norcia. Thank you for providing the opportunity to come before you to talk about our company.

DTE Energy has been in business in Michigan since 1849, and our employees and our assets such as power plants, pipelines, and wires, have provided fundamental services during the growth of our state into an industrial power house. As an employee of this company, I have the privilege to be a part of a team of 10,000 employees and over 1,600 Michigan-based suppliers that all come to work every day with a passion to serve Michigan. It is an honor. We truly believe that Michigan's success is our success.

My goal today is to share a bit about who we are as an organization, our operations here in Michigan and across the country, and what we aim to accomplish in the future to secure a reliable and affordable energy future for Michigan's families and businesses.

DTE Energy is Michigan's largest utility with over 3.5 million customers throughout the state. Our 10,000 employees represent one of the most engaged workforces in the country. In fact, DTE Energy is a four-time winner of the Gallup Great Workplace Award: an honor which recognizes organizations that make employee engagement a fundamental foundation of their business. We remain the only utility to ever win this award. Our employees' pride and passion for the work they do demonstrates their commitment to DTE Energy's aspiration to become a force for growth and prosperity in the communities where we live and serve and the best operated energy provider in North America.

DTE Energy has a broad impact in communities throughout the state. We are one of Michigan's largest tax payers, contributing more than $320 million in 2016 alone. Additionally, DTE Energy is a proud participant in the Pure Michigan Business Connect program. Our robust supplier network includes 1,600 Michigan-based companies across 64 counties in the state. We have invested $5.9 billion in Michigan businesses since 2010, supporting over 13,000 jobs across both the Upper and Lower Peninsulas. As we look out at the infrastructure investments we must make, DTE Energy will continue this in-state supplier investment, projecting a commitment of $5 billion over the next five years.

When you hear the words 'DTE Energy' most people think of their electric or gas utilities. While our two utilities comprise the largest part of our company, you may be surprised to know that DTE Energy also operates a variety of energy services in 19 states. This widespread operation means that we have had the opportunity to compete on costs and services in all types of regulatory structures. Energy systems – whether it is the fuel that runs through our vehicles, the electricity that powers our factories, or the natural gas that heats our homes – are the arteries that power our economy and maintain our quality of life. Because they are so vital to all that we do, all aspects of energy services are subject to regulatory oversight to ensure safety, consumer protection, and affordability.

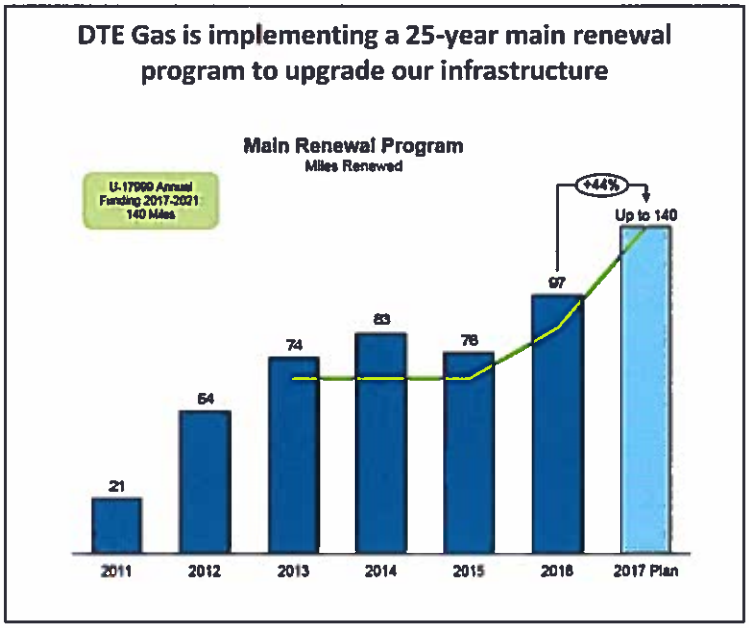
Like the majority of utilities in the US, DTE Energy's electric and gas services are regulated by state agencies to ensure that Michigan's families and businesses have reliable access to affordable energy. You are likely most familiar with DTE Electric which provides electric service to 2.2 million customers in Southeast Michigan. DTE Electric has served the needs of this state since 1886, during which time we powered Henry Ford's original factories and the birth of the automobile industry, the booming rise of Detroit, the Great Recession, and Southeast Michigan's recovering industrial strength.

Following massive investments in the country's infrastructure after World War II, residents of the United States have benefitted from electric service that sets the worldwide standard for electric reliability. The bridges, highways, water systems, and power plants built in the 40s and 50s propelled our economy at a critical growth period in our country's history. Today, the country is grappling with the need to re-invest in decades-old infrastructure, including energy generation, and strengthen the critical systems we rely on every day. DTE Electric is actively meeting this once-in-a-generation challenge, and will retire over 3,000 MW of coal-fired generation over the next 15 years. We will replace it with natural gas and renewables, generating a reliable supply of cleaner energy for decades to come. This transition is important to both Michigan and DTE since this energy infrastructure will power the industries of our state's economy, support thousands of jobs here at home, and ensure Michigan's success for generations to come.

Beyond transforming the electric generation fleet, DTE Electric is also implementing a multi-year strategy to upgrade how we distribute electricity to our customers. We are investing in our infrastructure in a way that makes sense for our customers, bringing them more reliable power. We are adopting new technologies that enable us to isolate outages from a control center without rolling trucks. We utilize grid

sensors allow us to know the health of the electric system in real time, flag and correct equipment problems before an outage occurs, and learn about outages instantaneously. DTE's investments in smart technologies and overall infrastructure upgrades have improved service quality, resulting in 70 percent more reliable power for customers in 2016 compared to 2014. Modernizing our grid now is creating a smarter, more reliable system that will be prepared for Michigan's energy needs today and in the future.

DTE Gas provides natural gas to 1.3 million customers across both the Upper and Lower Peninsulas. Like DTE Electric, DTE Gas is undertaking infrastructure upgrade initiatives to improve reliability and safety for our customers. Just six years ago, we were implementing main and service line upgrades at a pace of 21 miles per year. Thanks to increased efficiency, investment, and expertise, DTE Gas will replace up to 140 miles of mostly cast iron or bare steel lines with modern polyethylene plastic lines this year alone. In addition to DTE Gas employees, this effort will rely on Michigan-based contractors, engineers, and restoration teams to complete the work – putting money into the local economy and driving job creation. Most importantly, it will ensure improved safety and service for our customers.



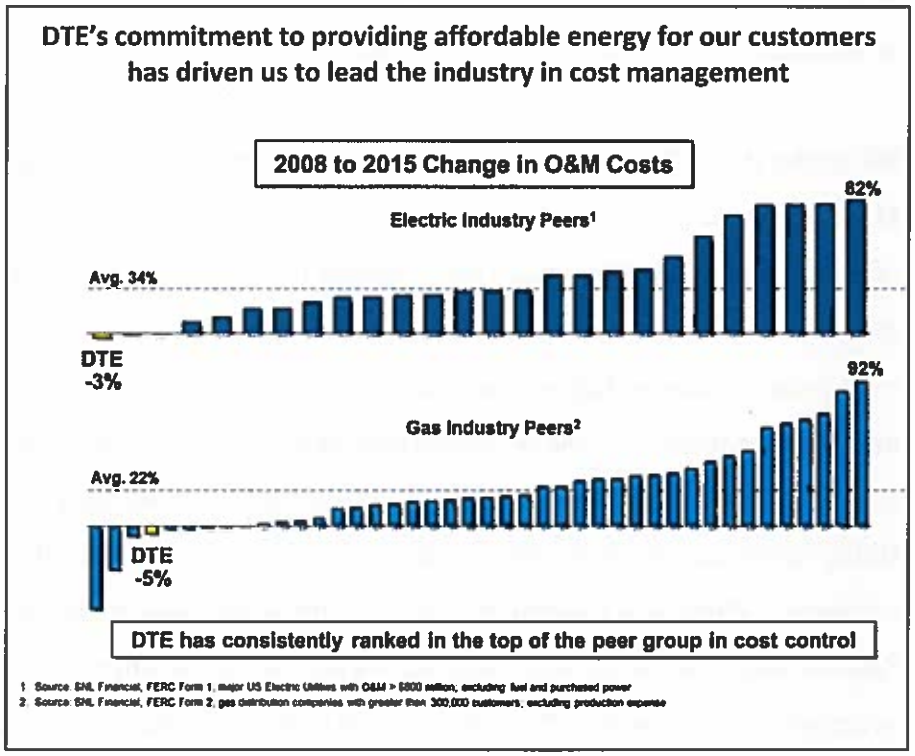
As stated previously, DTE Energy also operates several non-utility services in addition to our statewide regulated utilities. These services are regulated by federal entities and operate both inside and outside of Michigan.

DTE Gas Storage & Pipelines, or GSP, operates midstream natural gas assets, such as storage facilities and interstate pipeline infrastructure. The work of this business is increasingly important as demand for natural gas in the US rises. To meet the rising demand for natural gas in electric generation, DTE GSP is investing in projects such as the 255-mile NEXUS pipeline which will connect Michigan to abundant, low-cost supplies of natural gas from Pennsylvania, Ohio, and West Virginia. NEXUS will support over 1,500

jobs in Michigan,[1] and $2 billion of capital investment and increased tax base in Michigan and Ohio. Most importantly, increased access to natural gas markets will help to prevent price increases as natural gas power plants are built and gas demand rises. In fact, NEXUS will save gas and electric consumers around $3.1 billion over the next 20 years.[2]

DTE Power & Industrial and DTE Energy Trading provide a host of energy services to both manufacturers and energy providers. These services include on-site energy generation for large commercial or industrial customers, environmental protection controls, and energy sourcing and management solutions. One such project is an 8 MW on-site generating facility for a manufacturing company in Ohio. It is built and in service under a bilateral contract to support the power needs of the manufacturing facility.

In all that we do, DTE Energy takes seriously its aspiration to become the best operated energy provider in North America. DTE Energy has become an industry leader in controlling operation and maintenance (O&M) costs. From 2008 to 2015, our electric industry peers increased their O&M costs by an average of 34% while DTE Electric actually *reduced* its O&M by 3%. This dedication to controlling O&M translates to real savings for our customers. In the last three years, DTE Electric's industrial rates have fallen 5.5 percent on average, while the Great Lakes average



[1] "Revised Economic Impact Analysis of the NEXUS Gas Transmission Project." Pg. 3. Economic & Policy Resources. May 15, 2015

[2] ICF International as included in DTE Electric's 2016 PSCR Plan Case U-17920

increased 0.9 percent.[3] For residential customers, a better indicator of affordability is customer bills rather than rates. DTE Electric's residential bills are 6 percent below the national average.[4]

Our commitment to quality service has also translated to an increasingly safe work environment for our employees. In fact, 2016 was DTE Energy's safest year in the history of our company. You can assess the quality of a company's leadership, its employees, and operating practices by its employee safety record. I am proud to say that we have one of the best employee safety records in our industry. Our emphasis on quality service has also resulted in higher customer satisfaction. In 2016, we placed second among our Midwest peers in JD Power's Residential Customer Satisfaction in both gas and electric service.

Electric reliability and affordability are front and center for families and businesses. It is for us, too. We will continue our commitment to operational excellence and affordability, especially in the coming years as Michigan transforms its electricity generation fleet.

We understand that there is a desire to study electric market regulation and consider whether or not Michigan should shift from state to federal electric market regulation, or fully "deregulate". In the 90's, in states where electricity prices were among the highest, a movement toward deregulation emerged in search of lower costs, more reliable power supply, and higher customer satisfaction. After two decades of experience, transferring decision-making authority from state to federal regulators has not delivered on any of these promises. On average, rates in deregulated states are 25% higher than in regulated states, and they have never been lower.[5] Federally regulated markets in states like Illinois,[6] New York,[7] and Ohio,[8] have sought or are seeking state-mandated bailouts for baseload power plants that are critical for reliability. There is a movement back toward state regulation. Last year, JD Power Residential Customer Satisfaction in federally regulated states ranked in the bottom third of their class; state regulated states averaged in the top third.[9] In the midst of both an economic comeback and an energy generation

[3] US EIA form 826 (Preliminary 2016 Full Year)
[4] US EIA form 826 (Preliminary 2016 Full Year)
[5] US EIA Form 861 and Form 826; does not include Hawaii and Alaska (Preliminary 2016 Full Year)
[6] Geiger, Kim. "Exelon teams up with Big Coal in subsidy-filled Springfield bill." Chicago Tribune. 22 November 2016.
[7] McGeehan, Patrick. "New York State Aiding Nuclear Plants With Millions in Subsidies." The New York Times. 1 August 2016.
[8] Beattie, Jeff. "Ohio ZEC [Zero Emission Credit] bill unveiled to help FirstEnergy nuke plants." IHS The Energy Daily. 7 April 2017.
[9] 2016 JD Power Residential Electric Customer Satisfaction Scores

transformation, Michigan should look ahead at a bright future, not over our shoulder at deeply flawed markets and federal regulation.

DTE Energy's commitment to Michigan and the people of this state is deeply rooted in our 170-year history. Michigan's success is DTE's success by the nature of our business, our responsibility to our employees, and our commitment to be a force for growth within the communities we serve. Going forward, we will continue to embody this commitment as we lead Michigan into the next era of its energy future.

This is just an introduction to our company, but I hope this opens up additional opportunities in the future for the Committee to learn more about the energy industry, our company, and how DTE Energy powers our state. I welcome a discussion regarding any questions you may have about my testimony or other aspects of DTE Energy.

Two decades ago, some states began an experiment in electric deregulation in an attempt to lower rates – most of the country remains fully regulated

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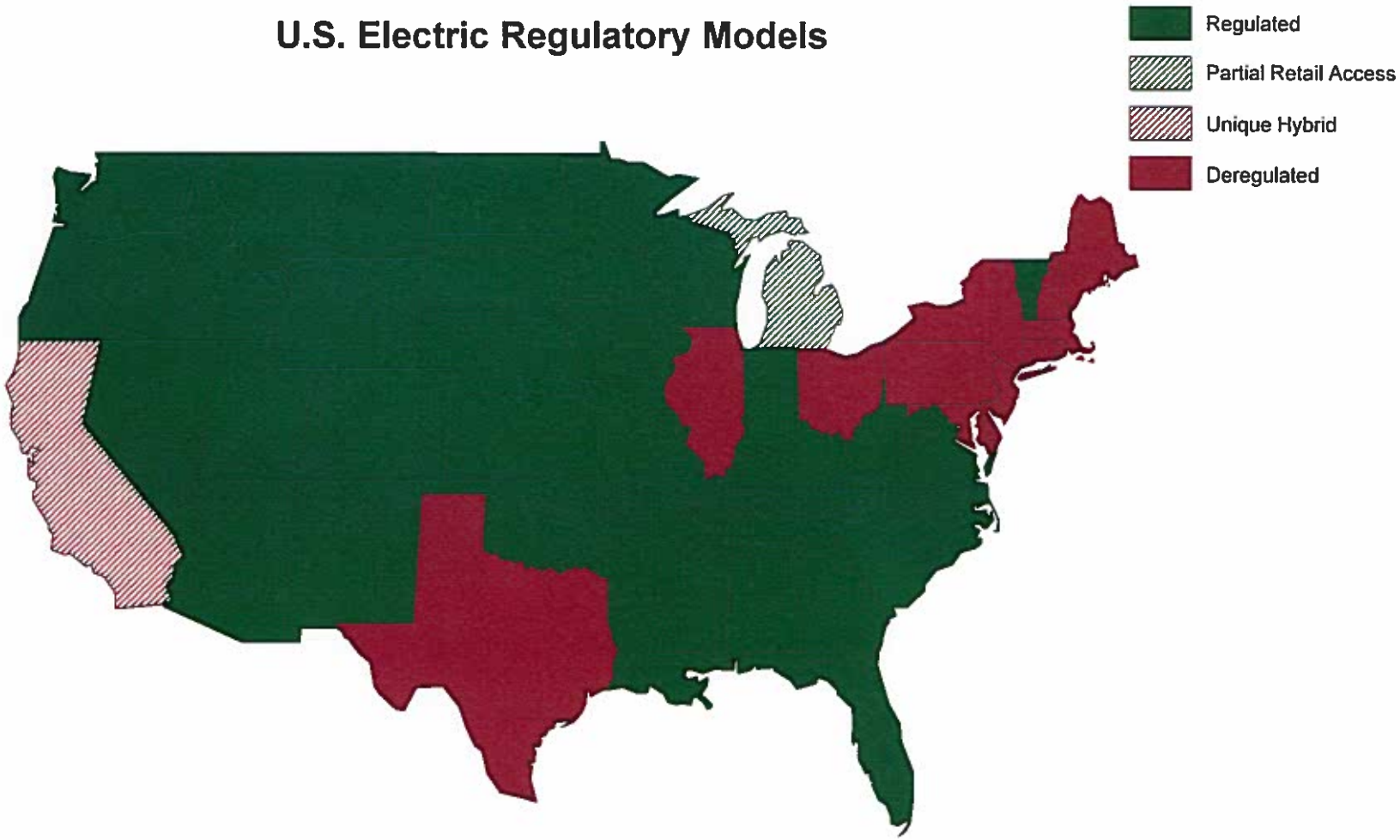
U.S. Electric Regulatory Models



Deregulation has not led to lower rates – in fact, rates in deregulated states are 25% higher than in regulated states

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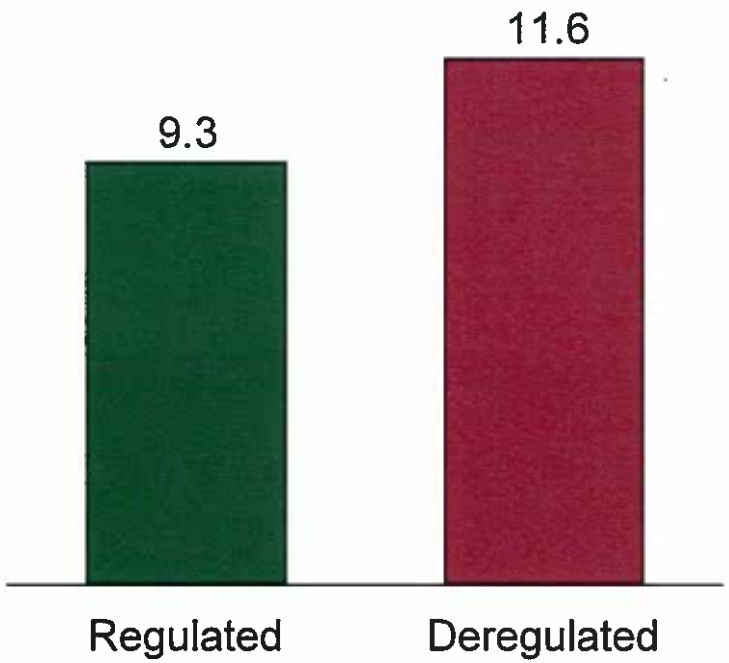
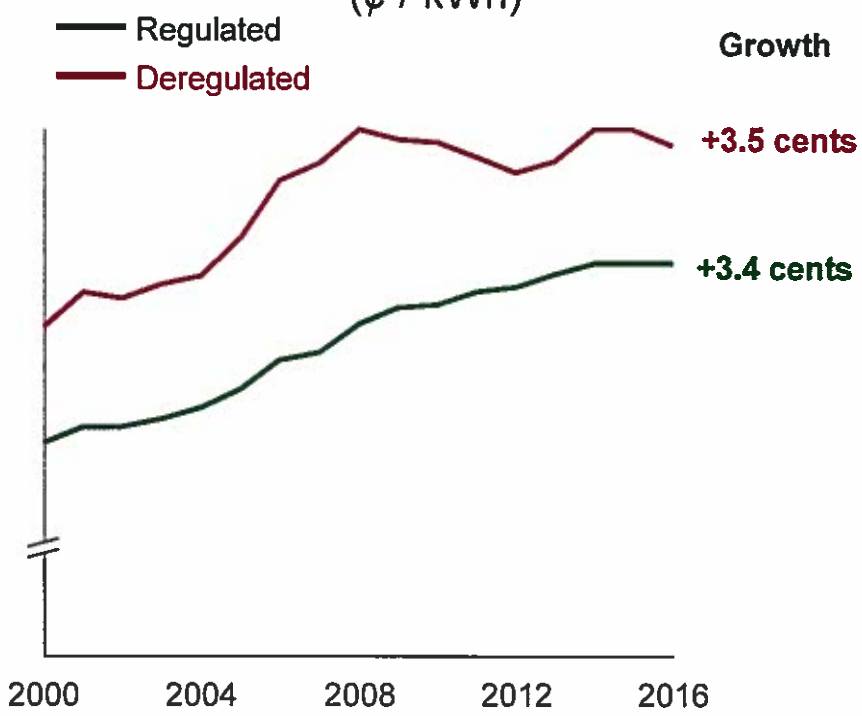
Average rates in deregulated states are 25% higher than in regulated states
(¢ / kWh; 2016)



The rate gap between regulated and deregulated states has widened over time
(¢ / kWh)



Source: EIA Form 861 and Form 826; does not include Hawaii and Alaska

Customer satisfaction is also lower in deregulated states

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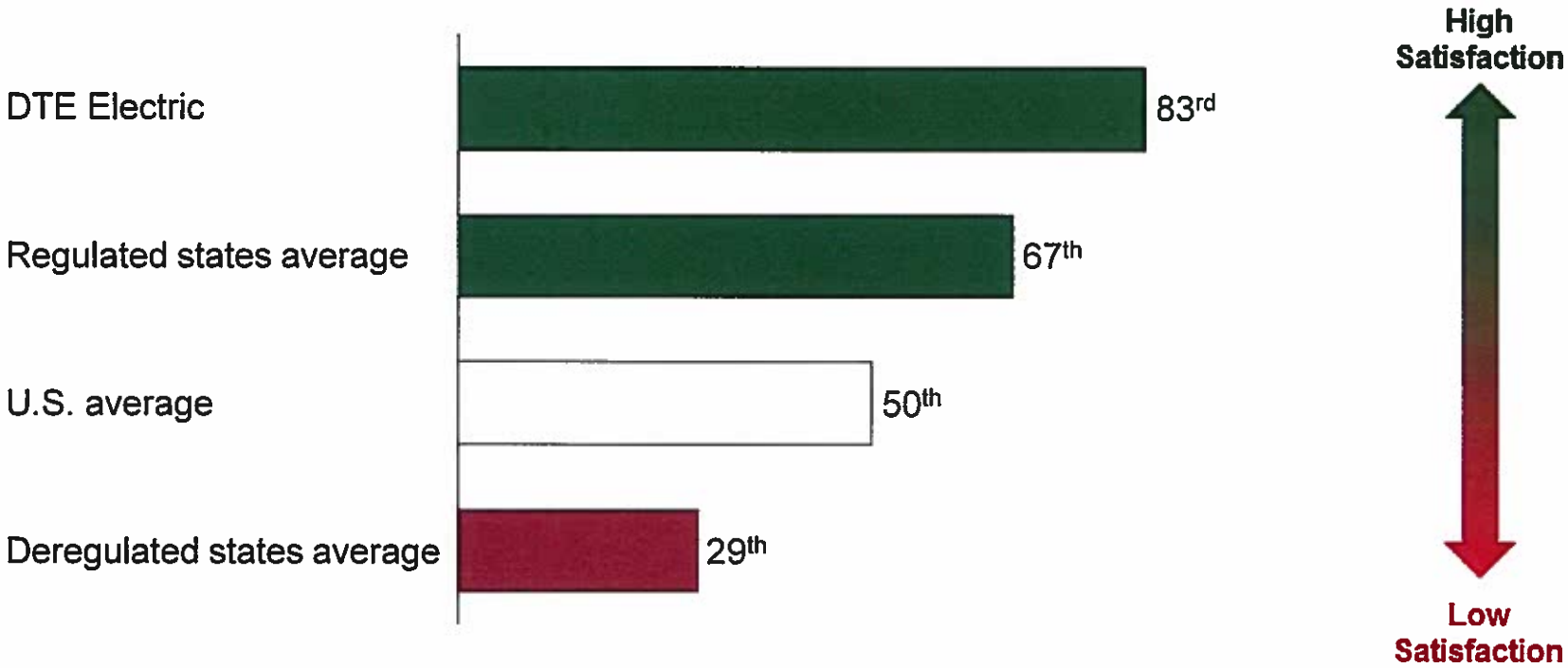
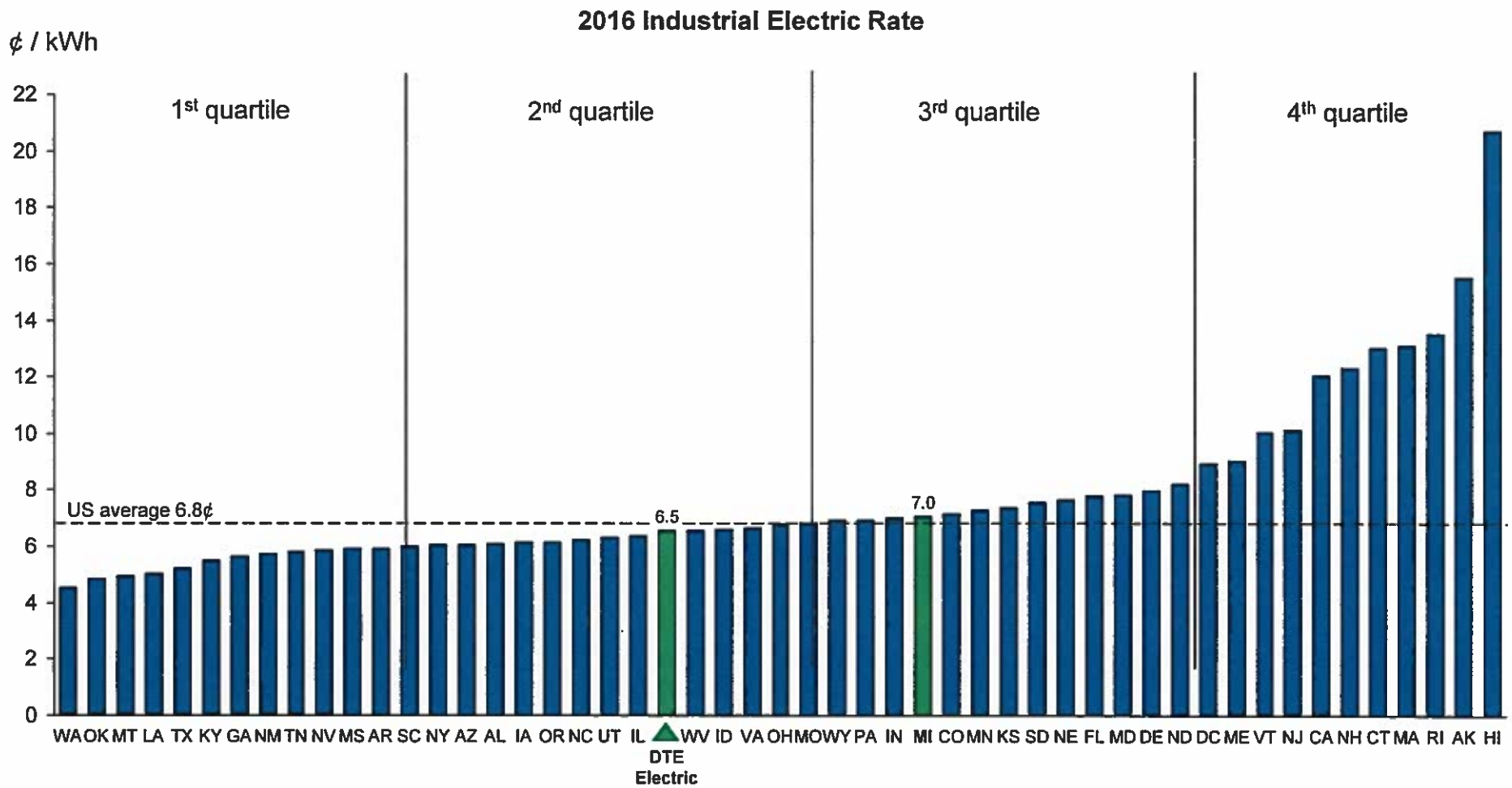
2016 JD Power Residential Electric Customer Satisfaction Scores
Average Percentile Rank



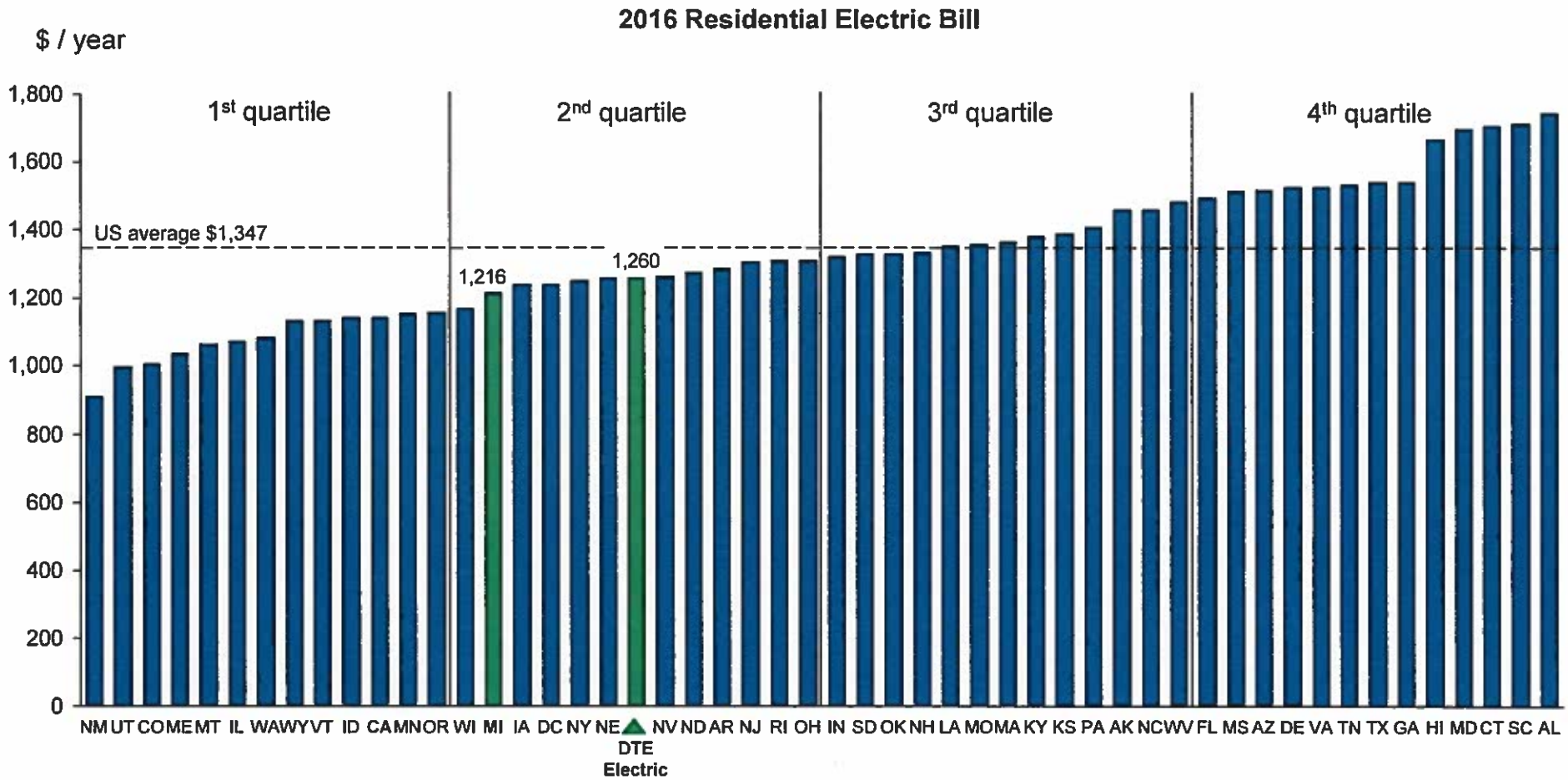
Source: JD Power

DTE industrial rates remain in the 2nd quartile and 2% below the US average



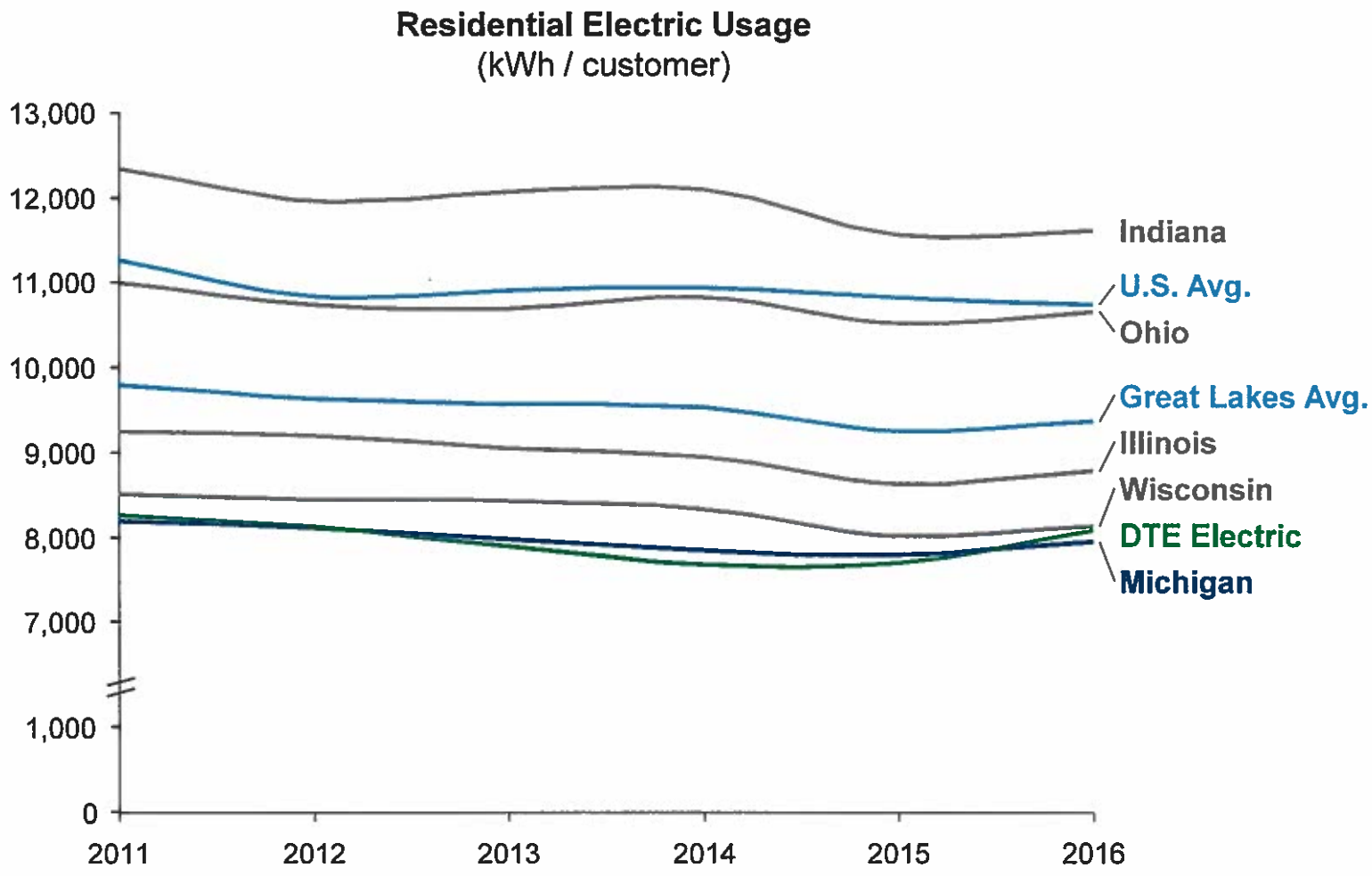
Source: EIA form 826

DTE Electric residential bills were 6% below the national average in 2016, even in a very hot year in Michigan



Source: EIA form 826

Michigan and DTE's residential usage is very low relative to other states, yielding lower bills but higher rates



Source: EIA form 826 and form 861