



CRAIN'S DETROIT BUSINESS

DTE looks for utility investments to juice up growth in earnings

By [Amy Lane](#)

6:00 am, April 10, 2006

LANSING — For at least the past decade, **DTE Energy Co.**'s utility earnings have grown largely in pace with Michigan's economy.

Advertisement

But now major investments in both the **Detroit Edison Co.** and **Michigan Consolidated Gas Co.** are poised to drive what has been annual utility net income growth of about 2 percent up to as much as 6 percent.

Company officials discussed those and other projections last week at a New York City business-update meeting with analysts and investors.

During the next five years, DTE (NYSE: DTE) may spend as much as \$4.8 billion at Detroit Edison, largely to install environmental controls at its coal-fired generating plants, to meet federal Clean Air Act requirements.

At MichCon, there are plans to spend more than \$1 billion through 2010. Expenditures will cover an expansion of MichCon's natural-gas distribution system in the Grand Rapids area to meet growing customer demand, an expansion of natural-gas storage capacity, and pipeline inspections and repairs required by federal law.

The investments expand the utilities' equity base, and Michigan rate regulation considers a utility's total costs of running its system in allowing an established return on equity.

To pay for the expenditures, utilities can seek rate increases or cut costs. In an atmosphere averse to rate increases, DTE is taking the latter route.

"The reality is that it's going to be very hard to go in and ask for the rate increases to cover these investments that we have to make," said Anthony Earley Jr., DTE chairman and CEO.

Crain's reported last month that rate concerns are helping drive DTE's efforts to cut costs, improve operations and be more efficient. DTE expects the comprehensive internal review, called the performance-excellence process, to result in savings of \$50 million to \$100 million this year and \$250 million to \$300 million by 2008.

About 25 percent of the savings will be in MichCon, and 75 percent will be in Detroit Edison.

Karen Anderson, a director in the Chicago office of New York City-based credit-rating firm **Fitch Ratings**, said DTE is not alone in its focus on cost-cutting. She said, "There's a lot of focus right now on unneeded rate increases," and utilities "want to make sure that their costs are under control so that when they go in for rate increases, they are seen as being prudent."

DTE plans to file a case this year for a MichCon rate increase. Earley said that Detroit Edison does not expect to need a rate increase until late 2008 or 2009.

But state regulators want to know if Detroit Edison's rates should be reduced.

The **Michigan Public Service Commission** issued an order last month, citing an improving economic picture at

Detroit Edison and directing the utility to explain why its rates should not be reduced.

One factor is the return of customers who went to alternate electricity suppliers. A February report from the PSC found that in 2005, the number of customers in Edison's territory served by alternate suppliers dropped 20 percent, while the overall electrical load served by those suppliers dropped 36 percent.

Other Detroit Edison factors of interest to the PSC are the utility's plans to reduce its workforce and cut costs, and January's expiration of residential-customer rate caps.

"Since November 2004, when Detroit Edison's last rate case was decided, a number of significant changes that may affect rates have taken place," said PSC Chairman Peter Lark, in a news release. "The commission is starting a proceeding to ensure that the customers of Detroit Edison are not paying rates that are no longer justified."

Edison must file its testimony and defense of its rates by June 16; a final PSC order is expected by year-end.

But DTE officials say the PSC needs to consider the substantial infrastructure spending facing the company, as well as costs associated with the performance-excellence process, such as employee severance payments or investments in technology.

"Our rates shouldn't be reduced," Earley said.

DTE plans to eliminate 1,600 to 2,000 of its 11,000 jobs by the end of next year. Outsourcing some corporate functions and consolidating facilities are possibilities, and the company is also looking at technologies.

For example, an automated meter-reading system that can read meters via telephone lines, radio signals or other means might make sense in some areas of DTE's service territory, where meters are far apart, Earley said. What the company is examining, he said, is whether "the cost of such things more than offset the savings by not having to hire meter readers."

Whatever DTE's ultimate decisions in its review process, as its earnings and cash flow improve so might its \$2.06 annual dividend. Dave Meador, DTE executive vice president and CFO, said at the New York presentation that the company is "more than open to a dividend increase down the road."

Neither he nor Earley specified when a dividend change, which must be approved by DTE's board of directors, might occur. The board next meets on April 27, after DTE's annual meeting.

Street Talk

This week's stock totals: 29 gainers, 44 losers, 8 unchanged

CDB's Top Performers	4/7 Close	3/31 Close	Percent Change
Catuity Inc.	\$7.88	\$7.15	10.23
Pulte Homes Inc.	40.81	38.42	6.22
North Pointe Holdings Corp.	13.10	12.50	4.80
Kaydon Corp.	42.29	40.36	4.78
Rofin-Sinar Technologies Inc.	56.20	54.13	3.82
Champion Enterprises Inc.	15.33	14.96	2.47
Federal Screw Works	17.00	16.70	1.80
Asset Acceptance Capital Corp.	19.78	19.47	1.59
Johnson Controls Inc.	77.12	75.93	1.57
Compuware Corp.	7.95	7.83	1.53
CDB's Low Performers	4/7 Close	3/31 Close	Percent Change
Rockwell Medical Technologies	\$7.34	\$8.30	-11.57
TechTeam Global Inc.	10.13	11.13	-8.99
General Motors Corp.	19.51	21.27	-8.28
Somanetics Corp.	20.37	22.08	-7.75
Lear Corp.	16.37	17.73	-7.67
Saga Communications Inc.	9.03	9.67	-6.62

Noble International Ltd.	15.87	16.93	-6.26
Caraco Pharmaceutical Labs	12.20	13.00	-6.15
Sun Communities Inc.	33.19	35.35	-6.11
American Axle & Mfg. Holdings	16.20	17.13	-5.43

1 1

PRINTED FROM: <http://www.craindetroit.com/apps/pbcs.dll/article?AID=/20060410/SUB/60407029/-1/toc&template=printart>

© 2006 [Crain Communications Inc.](#)