



## Rate concerns drive DTE's push to cut costs

By Amy Lane

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LANSING — Concern that **DTE Energy Co.** may be nearing a ceiling on rate increases it can get approved is helping drive the company's efforts to cut costs, improve operations and be more efficient.

At a New York City conference last Thursday, DTE Chairman and CEO Anthony Earley Jr. said the industry "is facing a regulatory glass ceiling on rates." DTE launched a comprehensive internal review, called the performance-excellence process, in part to "get ahead of this issue," he said.

Earley said that as a result of the operational review, DTE expects to take \$200 million to \$300 million in costs out of its business by the end of 2008. In April, DTE expects to make final decisions on corporate changes and begin to enact them.

That means job cuts. DTE plans to eliminate 1,600 to 2,000 of its 11,000 jobs by the end of next year. The company expects to cut 1,000 to 1,200 union positions, along with 600 to 800 nonunion jobs. The reductions will occur over the rest of 2006 and 2007.

The company plans to offer buyout packages to nonunion employees and is looking at that possibility also for union employees. Layoffs of nonunion employees will be accompanied by a severance package.

Karen Anderson, a director in the Chicago office of New York City credit-rating firm **Fitch Ratings**, said that as utilities' rates have risen to account for higher costs in operations, fuel, pensions, health care and other areas, executives see the difficulty in seeking further increases.

"If you have high rates already, it's very politically difficult to be seen going in and asking for more," she said. So when executives look at how they can keep rates where they're at, they look at lowering costs, Anderson said.

"I think knowing that it would be difficult to get another large increase, you start looking to see what you can do in-house, to keep your expenses low," she said.

DTE says the corporate improvements and lower cost structure generated by its review will help it offset higher commodity prices, mitigate inflation, fund large-scale utility investments, improve customer service, and reduce the need for future rate increases.

Boosting operational excellence could also favorably position DTE to make future acquisitions, as well as defend against unfriendly takeover attempts.

"We want to become a best-in-class utility. We don't want to be gobbled up by somebody else," said Scott Simons, DTE senior media-relations representative.

The majority of the cost reductions are expected to be in DTE's utility subsidiaries, the **Detroit Edison Co.** and **Michigan Consolidated Gas Co.** The company has not specified changes, but Earley said Thursday that some DTE plans involve outsourcing, and consolidating facilities. He spoke at the **Morgan Stanley Global Electricity and Energy Conference**, a meeting of institutional investors and energy analysts.

In embarking on the operational review, DTE asked its employees for ideas on how it can be more efficient and improve the performance of its utilities and corporate-support functions. Suggestions have included consolidation, labor productivity, standardization of systems and procedures, outsourcing, and other opportunities, Earley has said.

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