



Everything Michigan



CMS Energy ready to reposition itself in changing market

Sunday, April 29, 2007

By Chris Gautz

cgautz@citpat.com -- 768-4926

Having survived a global expansion that went bust and an energy-trading scandal that torpedoed its reputation, CMS Energy is planning a power play to reposition itself as a premier U.S. utility.

The Jackson-based utility has shed the majority of its overseas assets -- about \$1.4 billion in total -- and plans to use those funds to focus on what it does best: produce and sell energy to Michigan residents and businesses.

To that end, CMS will have several immediate challenges, including how to address the state's growing energy needs and how it can convince state lawmakers that, in hindsight, deregulation was a bad idea.

It must balance all of this while still striving to be leaner and cleaner in an era of mounting pressure due to global warming concerns.

After more than two decades with the company, CEO and President Dave Joos has survived it all. And now with three years in the top spot, Joos and his team are ready to set the strategy for the utility's future.

For starters, Joos said the company is in a position financially to leapfrog a lot of utilities in the country.

"It's an exciting time for the company," Joos said.

For the first time since becoming CEO on Oct. 1, 2004, Joos sat down with the Citizen Patriot to discuss his vision for CMS as it reinforces its focus on the homefront.

Restructuring

Like most publicly traded companies, CMS Energy faced increasing pressure from investors in the early 1990s to produce returns similar to dot-com companies sprouting up in Silicon Valley.

The utility began an aggressive international expansion in 1992, and in just six years, had operations in 23 countries on five continents.

But other major U.S. energy companies also expanded internationally, eventually drying up the potential for high returns.

Back at home, CMS had other problems.

An energy-trading scandal sharpened the slide of an already declining stock, caused a mini-housecleaning in the boardroom, the resignation of CEO William McCormick Jr., and common stock dividends were suspended.

The re-emphasis on its Michigan-based businesses grew from the ashes, and CMS stakeholders are now starting to see the new strategy come to fruition.

On Tuesday, Consumers Energy plans to unveil the document it says will guide it for the next 20 years, the Balanced Energy Initiative.

Joos said the plan will be "reasonably consistent" with the state's 21st Century Energy Plan released in January. It called for making investment in baseload generation, an increase in use of renewable energy, and renewed efforts at energy efficiency.

The CMS document is not a response to the state's plan, Joos said, as company officials have been working on it for more than year.

It will contain a more conservative number than the state's plan in terms of expected growth for electric customers' peak demands, at 1 percent per year. The state's plan expects load growth at 1.2 percent. And growth, without new energy, comes an increasing capacity shortfall in the coming years.

This is why Joos said he believes Consumers will need 1,400 megawatts of new energy by 2015.

Joos said Consumers has determined a mixture of natural gas and coal are the best solution to fill that need for those in the utility's customer area.

"There's no question we need capacity before a coal plant can be constructed," he said.

It can take seven to 10 years, and close to \$2 billion to bring a new coal baseload power plant on-line. It takes about three years for a natural gas plant, and roughly a half billion dollar investment.

So does that mean Consumers plans to build a natural gas plant first, or purchase an existing one? Tuesday's report will say for sure, but if that's the plan they'll have to make their case to state lawmakers.

"That energy could be as expensive as going out and buying it on the market," said Rep. Frank Accavitti, D-Eastpointe, who chairs the House Energy and Technology committee. Accavitti said he would need more information before making a decision.

But minority vice chair Mike Nofs, R-Battle Creek, said he wouldn't be opposed to Consumers building a gas plant if the utility says it needs it.

Customer choice

In order to build a new power plant, Joos said a complete repeal or restructuring of Michigan's customer choice law passed seven years ago, is necessary.

At its inception, Joos played a role in that legislation and was a believer in the program, as were experts industrywide.

"We thought that was a good start," Joos said. "It's clearly an impediment today. A lot has changed since 2000."

He said Michigan's hybrid model that allows customers to come and go as they please does not give utilities the needed assurance regarding customer base to go forward with the construction of needed new plants.

"We think the best course of action is a full repeal," Joos said.

Accavitti said he doesn't think a full repeal is needed, and Nofs said he is leaning toward a system that would allow some high-end users flexibility to choose, but also give utilities the ability to compete.

Accavitti said he believes that by carefully restructuring customer choice, the Legislature can ensure customers who are benefiting from choice are not harmed by reregulation.

Nofs said customer choice will likely be eliminated for residential customers. There are no Consumers customers who use the option.

Some still debate whether a new plant is needed and if it would be wiser to buy the energy from other states. CMS contends, as do some lawmakers, that it puts Michigan at the whims of prices it cannot control.

Another argument, though with fewer voices behind it, is that with increased conservation efforts, a new energy plant would not be needed.

Conservation is an important part of any comprehensive plan, Accavitti said.

"There's no cleaner power than power you never had to generate," he said. "But I'm not certain we can get all the way there by conservation."

The time to act is now, Joos said, because even if work began tomorrow on a baseload coal plant, it might come online around the time the state and the utilities are projecting large energy shortfalls.

"We're at risk of being stuck in a quagmire for a real long time," Joos said.

Barry Cargill, executive director of the Customer Choice Coalition, a group of businesses and organizations who use choice and encourage competition, strongly opposes any repeal of the state's customer choice law.

"But I don't blame them for saying they need to eliminate their competition before they build a new power plant," Cargill said. "What company wouldn't want that?"

Joos said independent power producers are free to build a power plant today in Michigan.

"But they're not doing it," he said.

He said the power prices aren't high enough to warrant it for the alternative suppliers.

New technology

With the influx of cash from all of its recent international sales, Joos said Consumers Energy will begin working on several ways to improve customer service and reliability.

He said the utility will begin enhancing distribution in the gas and electric sector and upgrading its existing power plants.

There is also interest in moving toward an advanced metering system, that would eliminate the need for some meter-reading jobs, but would also likely reduce customer bills.

The utility still has to rely on employees physically going out and reading meters on customers' homes once a month. A digital system could allow metering every hour and could also send information to the meter.

To fully implement a program like that would cost around \$500 million and take five years to complete. However, no decision has been made on whether to go forward.

The efforts made under the leadership of Joos to streamline operations and focus more on Michigan and the utility have not gone unnoticed. Both Nofs and Accavitti said they have been impressed with the direction Joos has taken CMS.

"I think they are a Class A company," Nofs said.

©2007 Jackson Citizen Patriot

© 2007 Michigan Live. All Rights Reserved.