March 20 hearing of the Citizens Inquiry into the Dexter Avenue Fire

Utility shutoffs: Who profits?

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24 March 2010

Posted below is one of several investigative reports presented at the March 20 inquiry into the Dexter Avenue fire. In coming days, World Socialist Web Site *will post other reports and testimony from the Citizens Inquiry.*

With this report I want to explore the question of who benefits from DTE's shut-off policy. In approaching this question, one must immediately confront a strange fact. Even though the area it serves has been devastated by the current economic crisis—southeast Michigan is arguably the hardest hit metropolitan area in the US—DTE's profits have risen substantially.

DTE is a private monopoly. Residents in southeast Michigan have little choice but to pay the rates it demands, if they wish to have electricity, and for much of the region, gas. By the same token, DTE's customer base is limited to southeast Michigan and its 5.5 million residents.

With 20 to 25 percent real unemployment in the region, 50 percent real unemployment in Detroit, and a massive scaling back of industrial production owing to the collapse of the auto industry, it would stand to reason that this would impact DTE's operations.

And indeed, DTE has disconnected utilities to nearly 400,000 households over the past two years. It cut services to 221,000 homes in 2009, a 50 percent increase over 2008, when 142,000 homes were cut off. Numbers for 2010 are not yet available, but by all indications the growth in shutoffs has continued. This is part of a larger national trend. About 4.3 million households had utilities shut off in 2009, up by 200,000 from the previous year.

Taking the average US household size of 2.6, this would mean that at least 575,000 people in southeast Michigan had utilities cut in 2009. This would be over 10 percent of the regional population and it does not count cutoffs carried out by other utilities.

Yet in spite of the rapid erosion of its customer base—both factories and households—DTE has weathered the storm with strong profits. In a recent earnings statement, DTE boasted of 14 percent growth in year-over-year profit and $532 million in total earnings. DTE's subsidiary for Detroit, Detroit Edison Company, had revenue of $1.53 billion, up from $1.35 billion in 2008. On March 11 its shares were declared to be "high yield and high momentum" by the business journal *Seeking Alpha*.

"We exited the year with a strong balance sheet in place, actually stronger than we entered," DTE president Gerard Anderson said of 2009, a year of job losses, wage cuts, and general devastation for DTE's customers.

How is this possible?

DTE has solved the problem of its declining customer base and the disappearance of its industrial clients, quite simply, by forcing those who still have utilities in the region to pay more. It has secured rate and surcharge increases from its compliant state "regulator," the Michigan Public Service Commission (MPSC), whose openly stated purpose is to guarantee the profitability of utilities operating in the state, currently indexed to a return on equity (ROE) of 11 percent.

When it comes to answering the demands of DTE, the politicians and so-called regulators are indifferent to the dimensions of the social crisis and mass unemployment in the region and the state.

In December 2009, DTE won approval from the MPSC for a rate increase to jack up revenues by $217 million for the coming year. Most of the rate increases were implemented in July 2009, months ahead of the winter heating season. Customers in Detroit were already paying 20 percent more per DTE bill in 2009 than they did in 2008, according to data from the MPSC. Michigan customers of Consumers Energy paid 9.3 percent more.

DTE recently boasted to shareholders of its ability to force the costs associated with unpaid bills onto those households still paying. "We also have an uncollectable tracker now at Detroit Edison," Anderson recently stated. "There's an 80-20 split which means that 80 percent of the uncollectable expense is covered by the tracker with 20 percent borne by us."

In other words, 80 percent of DTE's bad consumer debt in Detroit will be shouldered by its consumers, imposed as a rate surcharge.

These rate increases will, of course, only mean that more households will be disconnected, forced to scale back usage, or compelled to engage in "energy theft." Little matter to DTE, it can simply offset the next wave of losses related to shutoffs by imposing new surcharges.

How was this supposedly publicly regulated firm able to inflict this surcharge? As DTE's Anderson explained to shareholders, "We've been working on the whole area of uncollectables with our regulators to address this in a creative way, in the right way and we think this tracker gives us the right incentives to do just that." DTE was happy over the "constructive outcome" with the MPSC, he said.

The MPSC's rubber-stamping of DTE's predatory surcharges is criminal. Its commissioners—all of whom were appointed by Democratic Governor Jennifer Granholm—are aware of the suffering in

Detroit and Michigan. But they know well that their primary purpose is to ensure the profits of DTE, a major player in state politics (See: "The role of the government in deadly US house fires"). The provision of safe and affordable power and gas to consumers is of no concern when placed in the balance.

In any case, even if the commissioners fail to follow DTE's dictates, the utility can legally "self implement" rate increases after one year. This is due to the intervention of Michigan's legislature and Governor Granholm, which, in 2008, approved an "energy bill" that gave DTE and the other major utility in the state, Consumers Energy, wide latitude to impose all of their operating costs on consumers in the form of surcharges on their bills.

DTE customers are now paying, each month, a "U-15768 implementation" surcharge based on the 2008 energy law. This permitted DTE to unilaterally enact any rate increase submitted to the MPSC, even if it is not yet approved.

A recent analysis by the regional newspaper, the *Oakland Press*, broke down some of the other mysterious surcharges that appear on DTE bills, which together can account for about half of a typical customer's bill. These include such dubious charges as the "Renewable Energy Plan" fee, by which consumers are forced to pay DTE so that it can meet a state requirement to put in place "green energy" by 2015. Only one tenth of one percent of DTE's energy is derived from renewable sources, most of the remainder being generated from coal and nuclear plants. "You have to start somewhere," offered DTE spokesman Scott Simon.

There are two surcharges that support DTE's nuclear power reactor. One of these is a "nuclear decommissioning" charge that stockpiles money for the eventual closure of its Fermi II plant near Monroe, Michigan. The legislature even gave DTE the power to impose fees for continuing customers when other customers switch to a different provider. This appears on bills as the "choice implementation" surcharge.

All of this exposes the lie, meant to pit workers against each other, that "energy theft"—tapping into the energy grid without paying DTE—is the cause of higher utility rates. The only cause of high rates is DTE's profit drive—and the complicity of state politicians in advancing it.

It has not only been through increasing fees and rates that DTE has secured its profits. According to spokesmen, the other major source of revenue has come in the form of "cost reductions"—generally a euphemism for cutting jobs and lowering wages and benefits. DTE recently announced it had implemented $130 million in cost cutting measures in 2009.

The company's workforce was pared down sharply in 2006 and 2007, when 2,000 positions—among them 1,200 lineman's jobs—were cut. As a result, it has not been uncommon for DTE customers to go hours, even days, without power after storms knock down power lines.

The "regulatory" set-up in Michigan is typical of US states. Utilities go to the various state public services commissions when they are determined to raise revenue. In theory, these increased revenues are to be used to improve delivery and infrastructure. In practice, they are plowed into the same profit streams that are turned over as dividends to top stockholders and as salaries and bonuses to executives.

DTE's top executives have made themselves rich at the expense of Detroit and Michigan. CEO Anthony F. Earley, Jr. took home $11.4 million combined pay in 2007 and 2008. He has accrued 293,000 shares in the company, each one of which is now worth $45.60. Earley has thus amassed well over $13 million in DTE stock. He had net wealth of $23 million in 2008, according to the executive compensation web site Equilar.

Earley also sits on the board of directors at both Comerica Bank and Ford Motor Company.

Anderson, DTE's president, currently has about $6.5 million in stock, and was paid $3.7 million in salary in 2008. David E. Meador, Executive Vice President and Chief Financial Officer, was paid over $2 million in 2008, according to *Forbes*.

As obscene as this level of personal enrichment is, such figures are dwarfed by Wall Street's interest in DTE. All of the largest shareholders in the company are finance houses, hedge funds, and mutual funds.

The single largest shareholder is the finance firm Vanguard, whose stocks in the company are valued at about $500 million. Other major investors include the banks State Street and Barclays of Great Britain, each with shares valued at around $300 million. According to one web site, there are 14 finance firms that each have assets totaling over $100 million invested in DTE.

One of the major investors in DTE is the investment firm BlackRock, which manages $3.35 trillion in total assets. Its CEO, Laurence Fink, owns $200 million in shares and was ranked 55 in CEO remuneration last year by *Forbes*.

It is the defense of these interests that dictate shutoff policies in Michigan. DTE executives such as Earley are richly rewarded by Wall Street for ensuring the profitability of the utility. Earley and his colleagues must rely, in turn, on Michigan's politicians ensuring that the desired rates can be forced upon the state's beleaguered consumers.

This position was made clear by DTE executives when they campaigned for the 2008 "energy reform" legislation. "Michigan's two largest utilities [DTE and Consumers Energy] say they need a guaranteed customer base to secure Wall Street financing," a local press account noted at the time.

Wall Street has rewarded DTE for its policies, Fitch Ratings recently upgrading its credit outlook for the company, specifically citing, "the decision to hike rates at subsidiary Detroit Edison Co."

All DTE's efforts take as their fundamental task advancing the share values of the finance industry—the very same interests that have benefited from trillions in bailout money from the US Treasury and Federal Reserve Board, under both the Bush and Obama administrations, and the very same interests who are currently demanding the impoverishment of the working class in Greece and Europe.

The ruthlessness and cruelty of this profit imperative is reflected in the utility shutoff policies established by DTE, MPSC, and Michigan lawmakers. Those who cannot pay, according to the executives, politicians, and media commentators, are undeserving of the most fundamental human needs for warmth and light.