

# Memo

**Subject:** Grounds for a Yes vote on DTE Energy (DTE) shareholder resolution requesting a report on plans to reduce air emissions

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**DTE Energy (DTE) Shareholders are encouraged to vote FOR the following resolution:**

***RESOLVED:** Shareholders request that DTE Energy adopt quantitative goals for the reduction of greenhouse gas and other air emissions in anticipation of emerging EPA regulations; and that DTE Energy report to shareholders by September 30, 2012, on its plans to achieve this goal, including plans to retrofit or retire its existing coal plants. Such a report may omit proprietary information and be prepared at reasonable cost.*

**DTE fails to sufficiently disclose efforts to reduce emissions-related risks:**

Increased compliance expenditures put upward pressure on production costs and can reduce company profits. Recently finalized EPA air emissions regulations may impact DTE shareholder value. DTE Energy is among the top 25 largest electricity producers in the United States. With approximately 80% of its generation coming from fossil fuels, DTE has a significant stake in the future of pollution regulations.<sup>1</sup>

**Rationale for a “FOR” vote:**

**Financial Risks Need to be Disclosed and Mitigated:**

1. DTE recognizes the potential risks associated with new EPA regulations, however, state they are "not able to quantify the financial impact ... at this time."<sup>2</sup>
2. According to former DTE Executive Chairman, Anthony Earley Jr., new mercury emissions regulations may drive DTE to retire 20-30% of its existing coal fired capacity over a short period of time.<sup>3</sup>

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<sup>1</sup> <http://www.ceres.org/resources/reports/benchmarking-air-emissions-2010>

<sup>2</sup> DTE Energy 10-Q (filed: 11/4/11)

<sup>3</sup> [http://republicans.energycommerce.house.gov/Media/file/Hearings/Energy/041511\\_2/Earley.pdf](http://republicans.energycommerce.house.gov/Media/file/Hearings/Energy/041511_2/Earley.pdf)

3. DTE's generation/emissions section of their website acknowledges that no current technology can remove CO<sub>2</sub> from their power plant emissions cost-effectively.<sup>4</sup>
4. DTE owns and operates six power plants in Michigan that use coal as a primary fuel source. All six of these plants must be in compliance with EPA's Cross State Air Pollution Rule by 2014<sup>5</sup>. Of these plants, DTE has only released plans to install new SO<sub>2</sub> emissions controls at one of these facilities (Monroe Power Plant).<sup>6</sup>
  - a. DTE claims it will achieve full compliance with new EPA emissions standards, but has asked for multi-year extensions to the rulings. At the Monroe Power Plant alone, system retrofits (selective catalytic pollution control systems) will cost about \$1.7 billion.<sup>7</sup>

### **Reputational Risk:**

It is important for DTE to maintain a good reputation with regulators, ratepayers and the public in their operating region. Without the trust of their customers, it will be difficult to undertake major new projects and recover costs.

1. DTE Energy owns 5 of the 7 highest mercury polluting power plants in Michigan<sup>8</sup>
  - a. "Mercury is a toxic pollutant and can cause irreversible damage to young children. (It is) disappointing to see (former) DTE Energy Executive Chairman Anthony Earley Jr. lobbying Congress to delay the life-saving mercury and air toxics rule this past spring."  
-Michelle Hesterberg, Environment Michigan
2. DTE Energy has clashed with customers over recent utility shut-offs in the Detroit metropolitan area. As recently as February 2012, about 300 demonstrators rallied in the lobby of DTE headquarters to protest the shut-offs.<sup>9</sup> Customer relations problems may persist if customers do not believe that DTE is pursuing a cost-effective approach to reducing pollution.

### **DTE lags competitors in emissions reductions and reductions targets:**

1. DTE's emissions have increased in recent years, compared to other power producers.
  - a. Between 2006 and 2008, DTE energy moved up the list of 100 largest power producers, and total emissions of sulfur dioxide, nitrogen oxides, carbon dioxide, and mercury increased as well. Increasing production

<sup>4</sup><http://www.dteenergy.com/dteEnergyCompany/environment/generation/generation.html>

<sup>5</sup> <http://www.epa.gov/airtransport/>

<sup>6</sup> Air Markets Program Data: <http://ampd.epa.gov/ampd/>

<sup>7</sup><http://www.dteenergy.com/dteEnergyCompany/environment/generation/controls.html>

<sup>8</sup> <http://www.crainsdetroit.com/article/20111110/FREE/111119991>

<sup>9</sup> <http://www.freep.com/article/20120127/NEWS05/201270360/300-protest-at-DTE-Energy-headquarters-over-utility-shutoffs>

can yield increased emissions, but compared to other utilities, DTE has not kept pace in reducing overall pollution.

- b. 2006 DTE Energy ranks for total emissions<sup>10</sup>
    - i. 25<sup>th</sup> largest power producer in the U.S. (42,859,263MWh)
    - ii. SO<sub>2</sub> Emissions: 193,923 tons (14<sup>th</sup> highest)
    - iii. NO<sub>x</sub> Emissions: 53,963 tons (14<sup>th</sup> highest)
    - iv. CO<sub>2</sub> Emissions: 37,113,125 tons (19<sup>th</sup> highest)
    - v. Hg Emissions: 0.81 tons (15<sup>th</sup> highest)
  - c. 2008 DTE Energy ranks for total emissions<sup>11</sup>
    - i. 21<sup>st</sup> largest power producer in U.S. (52,147,843MWh)
    - ii. SO<sub>2</sub> Emissions: 220,226 tons (8<sup>th</sup> highest)
    - iii. NO<sub>x</sub> Emissions: 65,014 tons (11<sup>th</sup> highest)
    - iv. CO<sub>2</sub> Emissions: 44,524,717 tons (16<sup>th</sup> highest)
    - v. Hg Emissions: 1.13 tons (9<sup>th</sup> highest)
2. American Electric Power has set a long-term target of reducing GHG emissions 10% by 2020 (compared to DTE's 3-5% reduction commitment by 2012).<sup>12</sup>
3. Last year, DTE's fuel mix used to supply electricity was 75% coal-fired, which is high compared to the 2011 regional average of just under 65%<sup>13</sup>. This leads to higher emissions and increased risks.

## **Conclusion:**

Like many coal-fired power companies, DTE Energy faces a number of short and long-term risks associated with existing and proposed emissions regulations. These risks will very likely increase production costs and reduce profits from its existing fleet of coal plants. DTE is not disclosing sufficient information on its plans to cost-effectively reduce these emissions and the related impact on shareholder value.

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<sup>10</sup> <http://www.ceres.org/resources/reports/air-emissions-of-100-largest-electric-power-producers-2008/view>

<sup>11</sup> <http://www.ceres.org/resources/reports/benchmarking-air-emissions-2010>

<sup>12</sup> [www.cdproject.net](http://www.cdproject.net)

<sup>13</sup> <http://www.dteenergy.com/dteEnergyCompany/environment/generation/fuelMix.html>