

# 2013 Michigan Forum on Economic Regulatory Policy

## MICHIGAN ELECTRICITY RATES & MICHIGAN JOBS



Presented by:

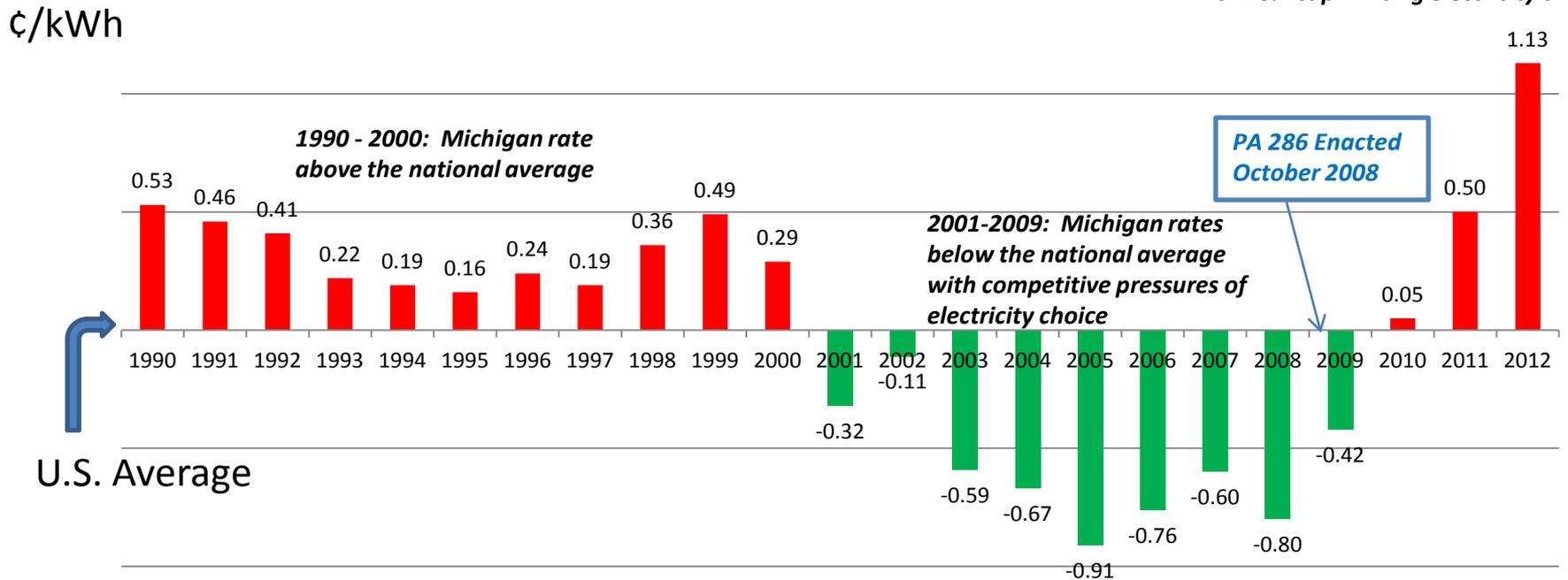
Robert A. W. Strong  
Clark Hill PLC  
151 S. Old Woodward Avenue, Suite 200  
Birmingham, MI 48009  
(248) 988-5861  
[rstrong@clarkhill.com](mailto:rstrong@clarkhill.com)



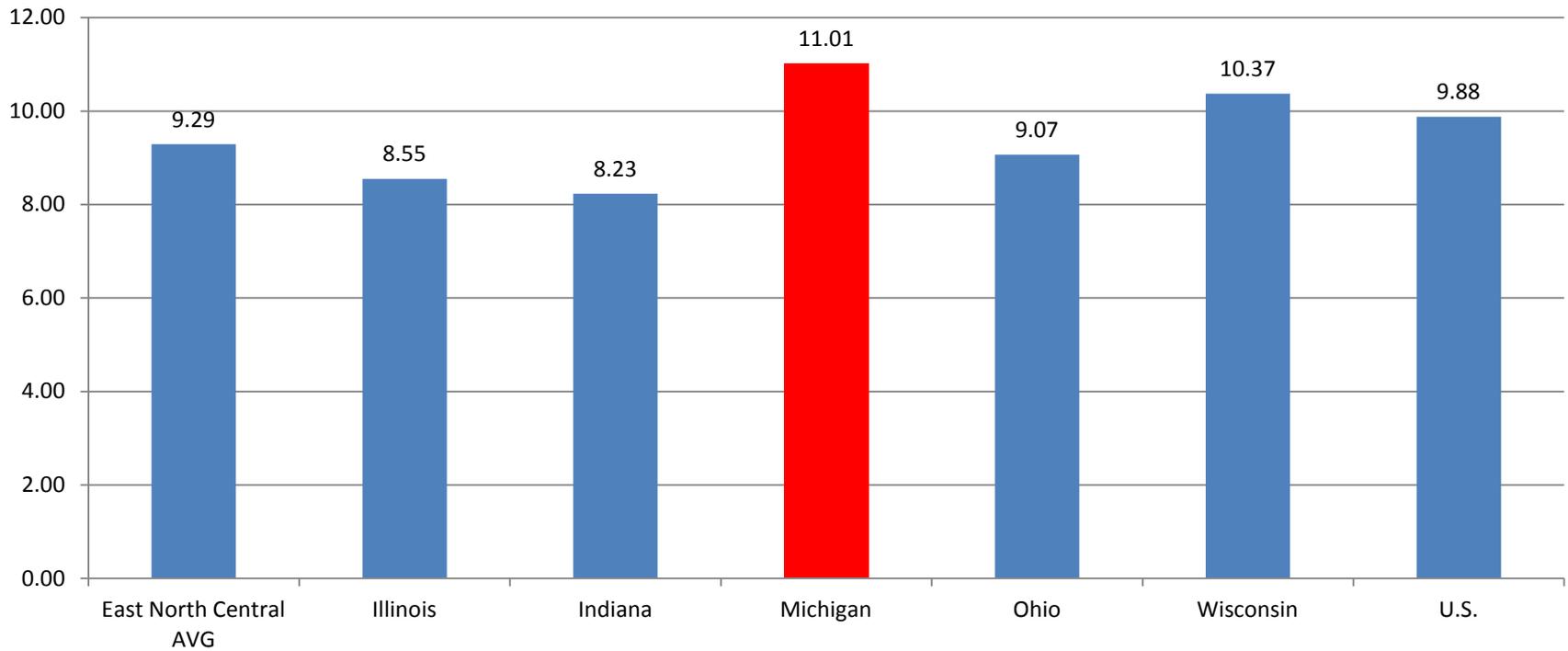
# How Do Michigan Electricity Rates Compare?

## Michigan vs US National Average

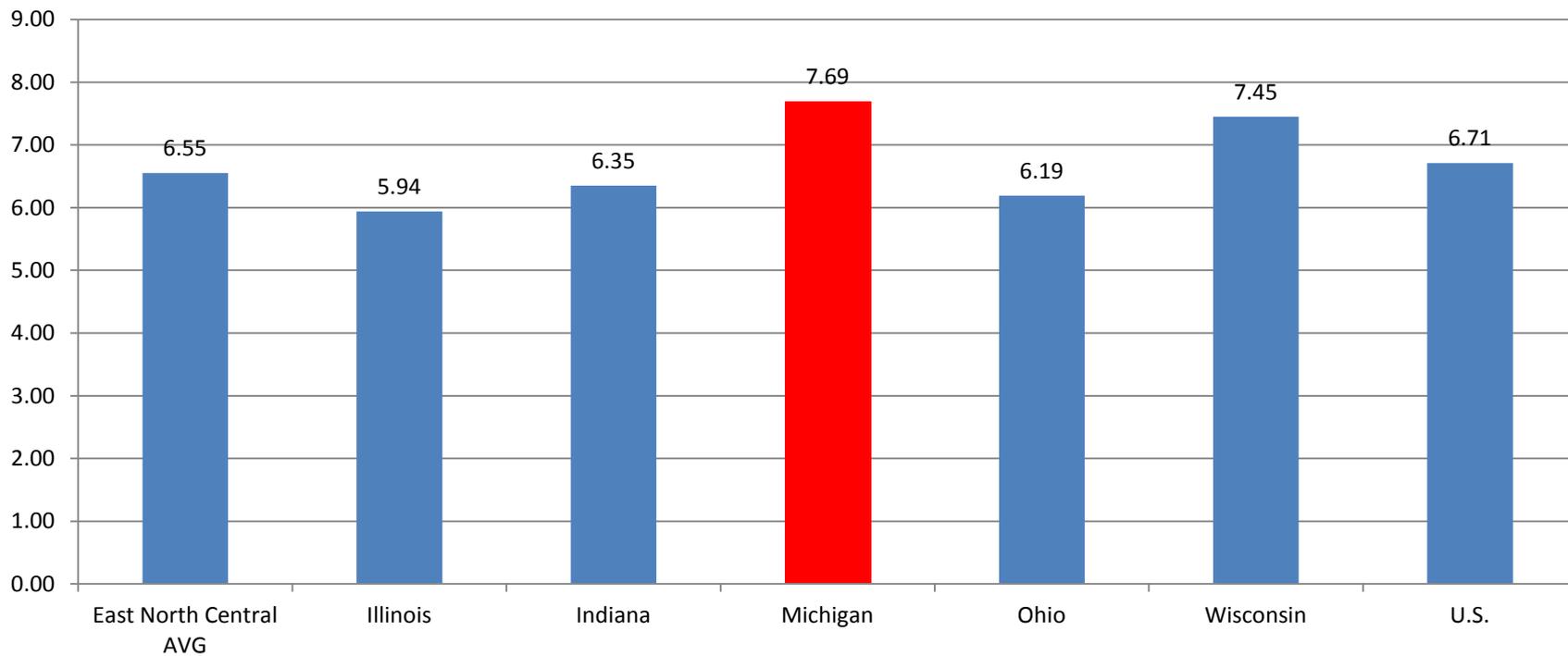
*2010 - 2012: Michigan rates again above the national average with 10% cap limiting electricity choice*



**All Sectors**  
**Average Retail Price of Electricity to Ultimate Customers by End-Use Sector**  
**by State, YTD November 2012 - ¢/kWh**

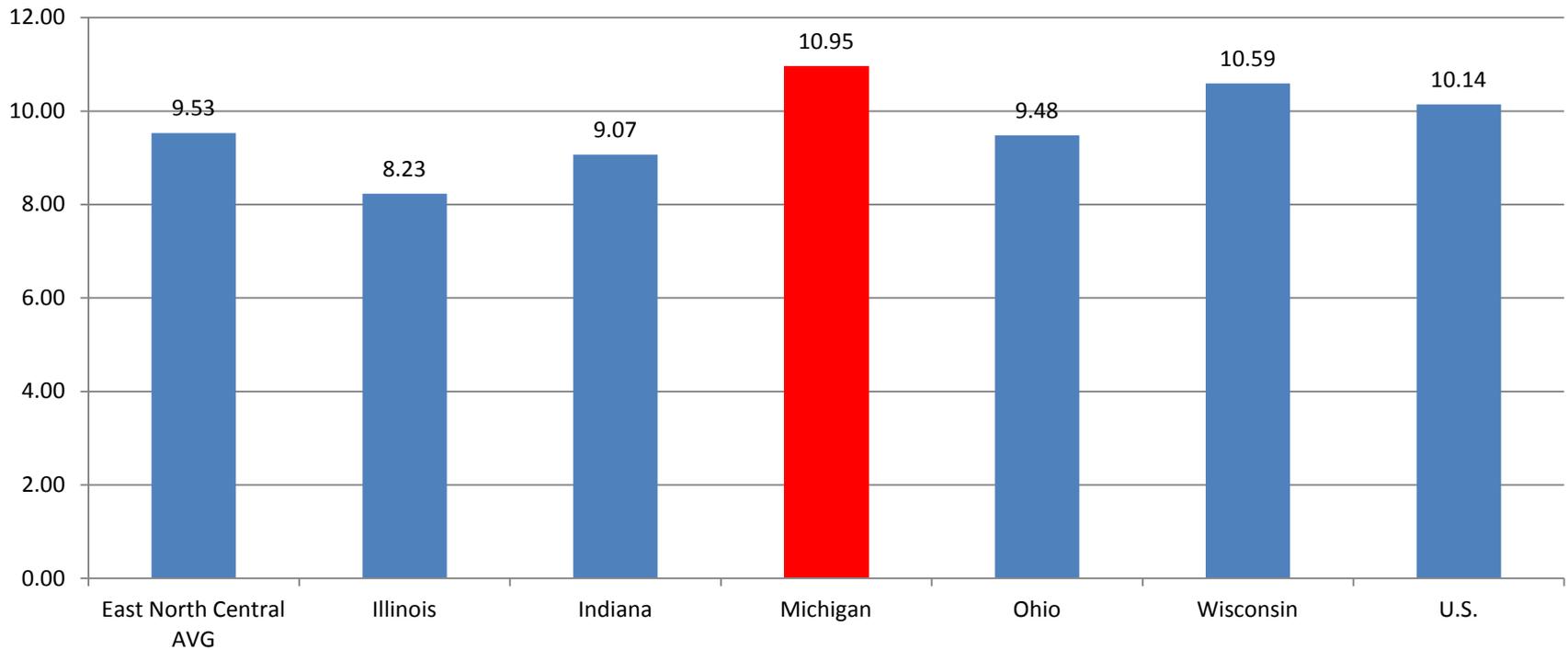


**Industrial**  
**Average Retail Price of Electricity to Ultimate Customers by End-Use Sector**  
**by State, YTD November 2012 - ¢/kWh**

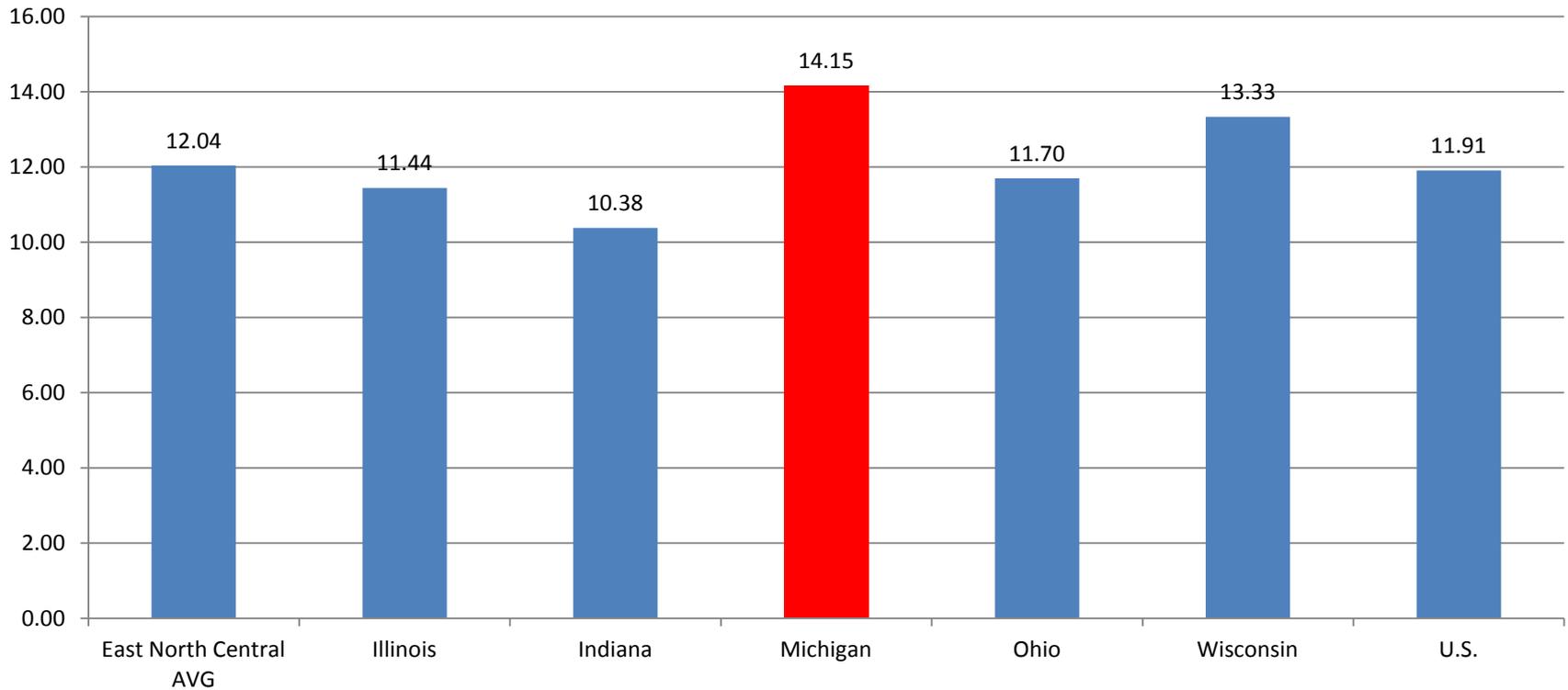


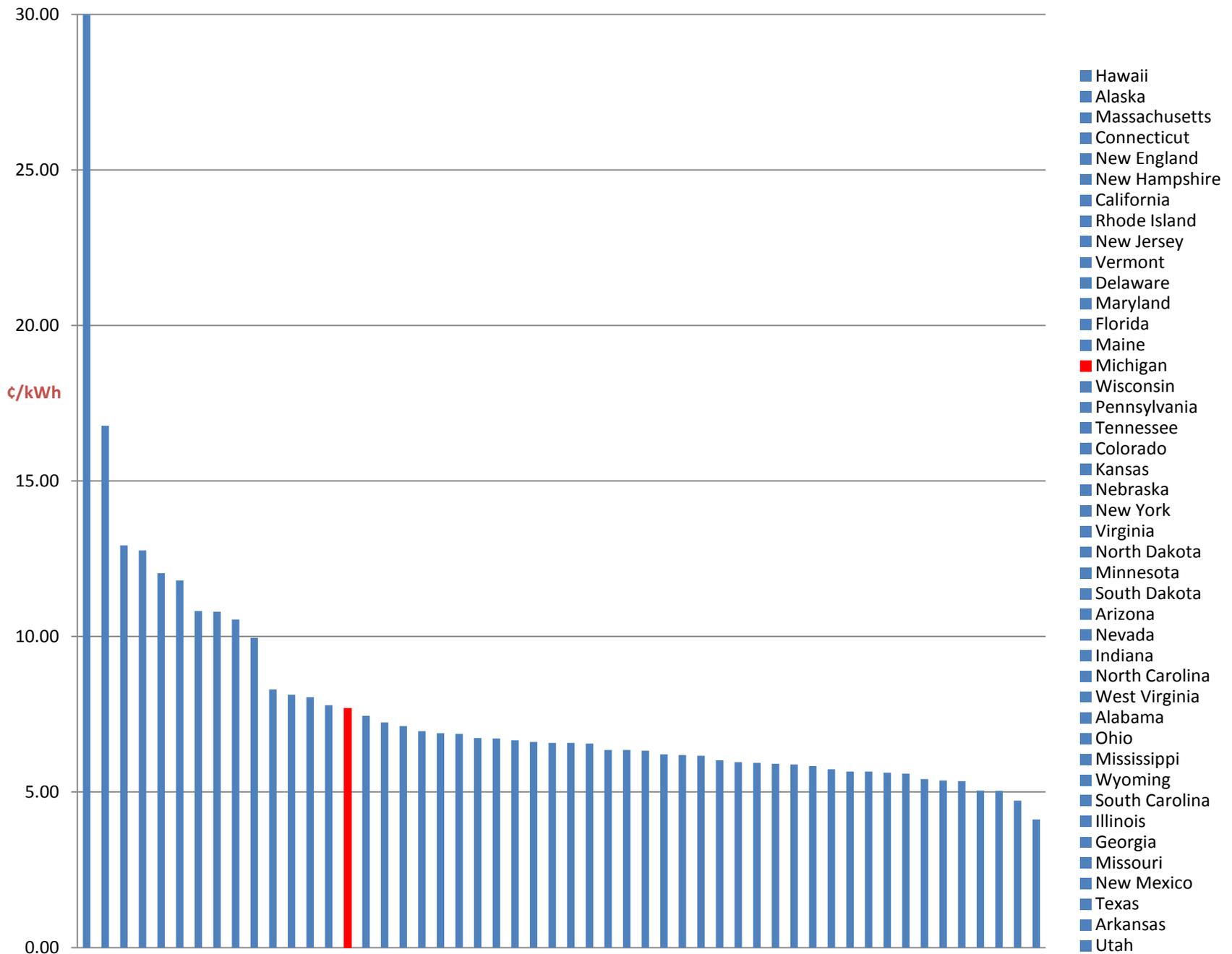
Source: U.S. Energy Information Administration

**Commercial**  
**Average Retail Price of Electricity to Ultimate Customers by End-Use Sector**  
**by State, YTD November 2012 - ¢/kWh**



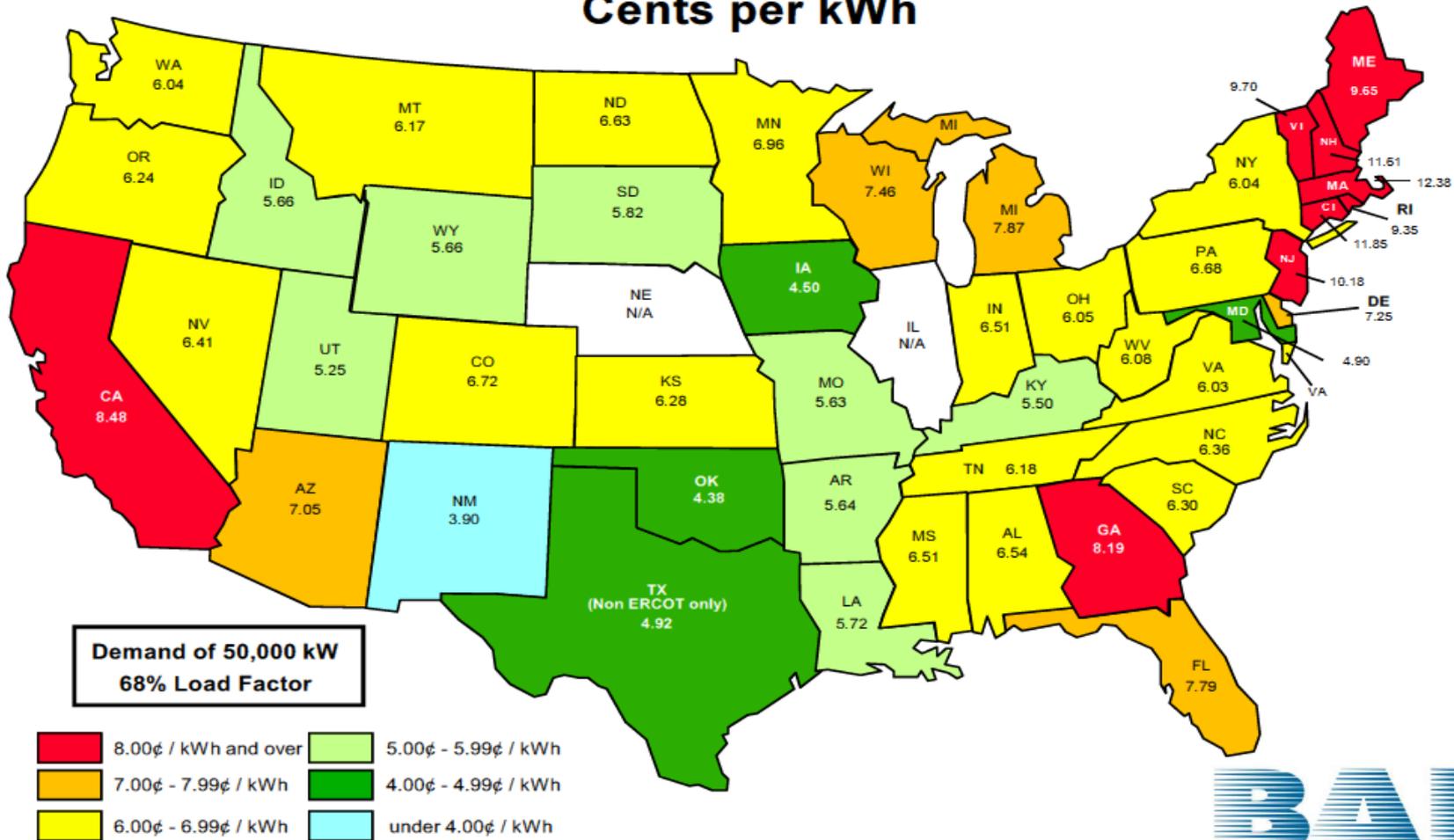
**Residential**  
**Average Retail Price of Electricity to Ultimate Customers by End-Use Sector**  
**by State, YTD November 2012 - ¢/kWh**





Source: U.S. Energy Information Administration

# Year 2012 Industrial Firm Power Rates For Investor Owned Utilities Cents per kWh

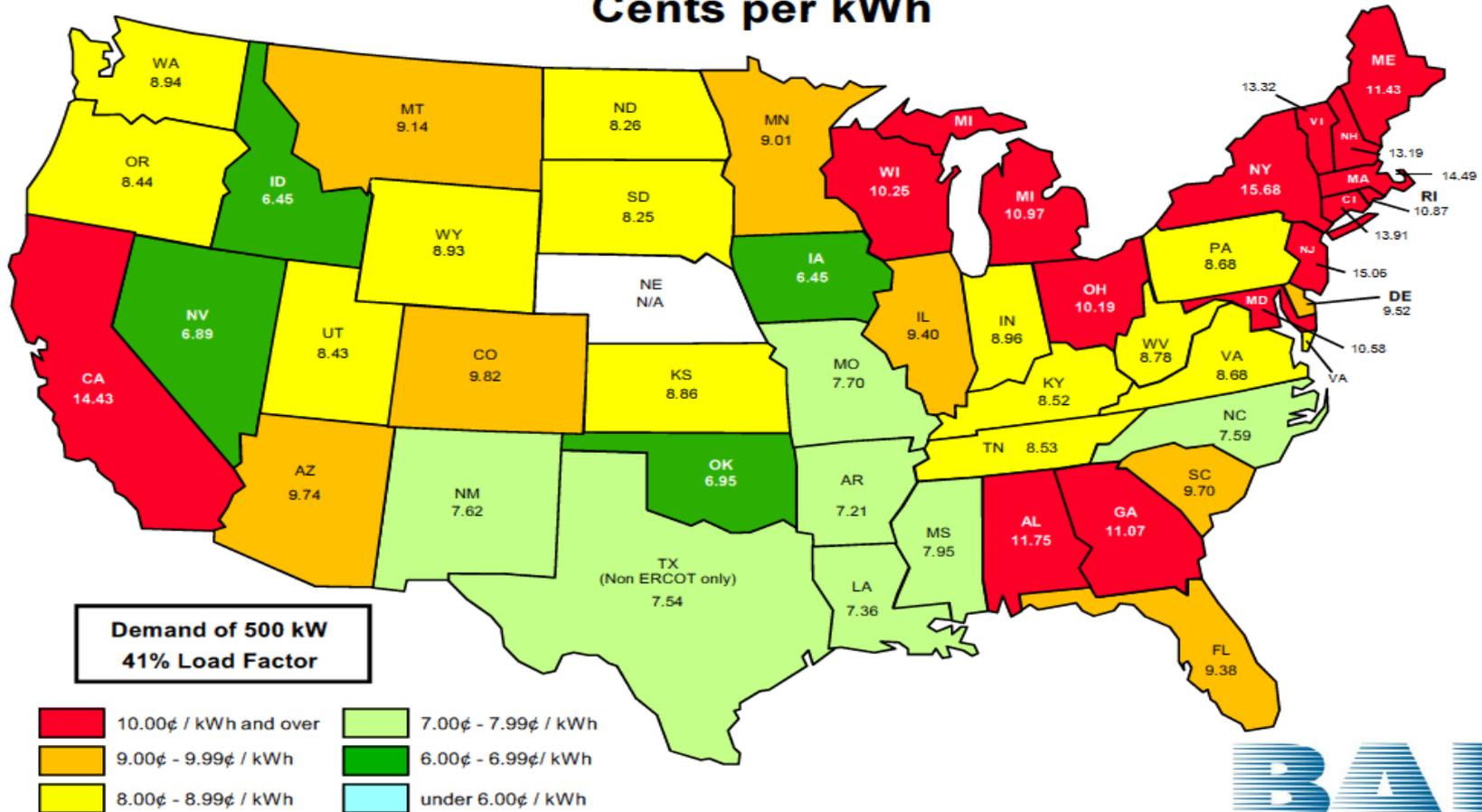


Source: Rates: Edison Electric Institute, Winter 2012 & Summer 2012  
Weighting: Energy Information Administration/Electric Sales and Revenue

February, 2013

**BAI**  
BRUBAKER & ASSOCIATES, INC.  
Phone: (636) 898-6725  
E-mail: bai@consultbai.com  
Web page: www.consultbai.com

# Year 2012 Commercial Electric Rates For Investor Owned Utilities Cents per kWh

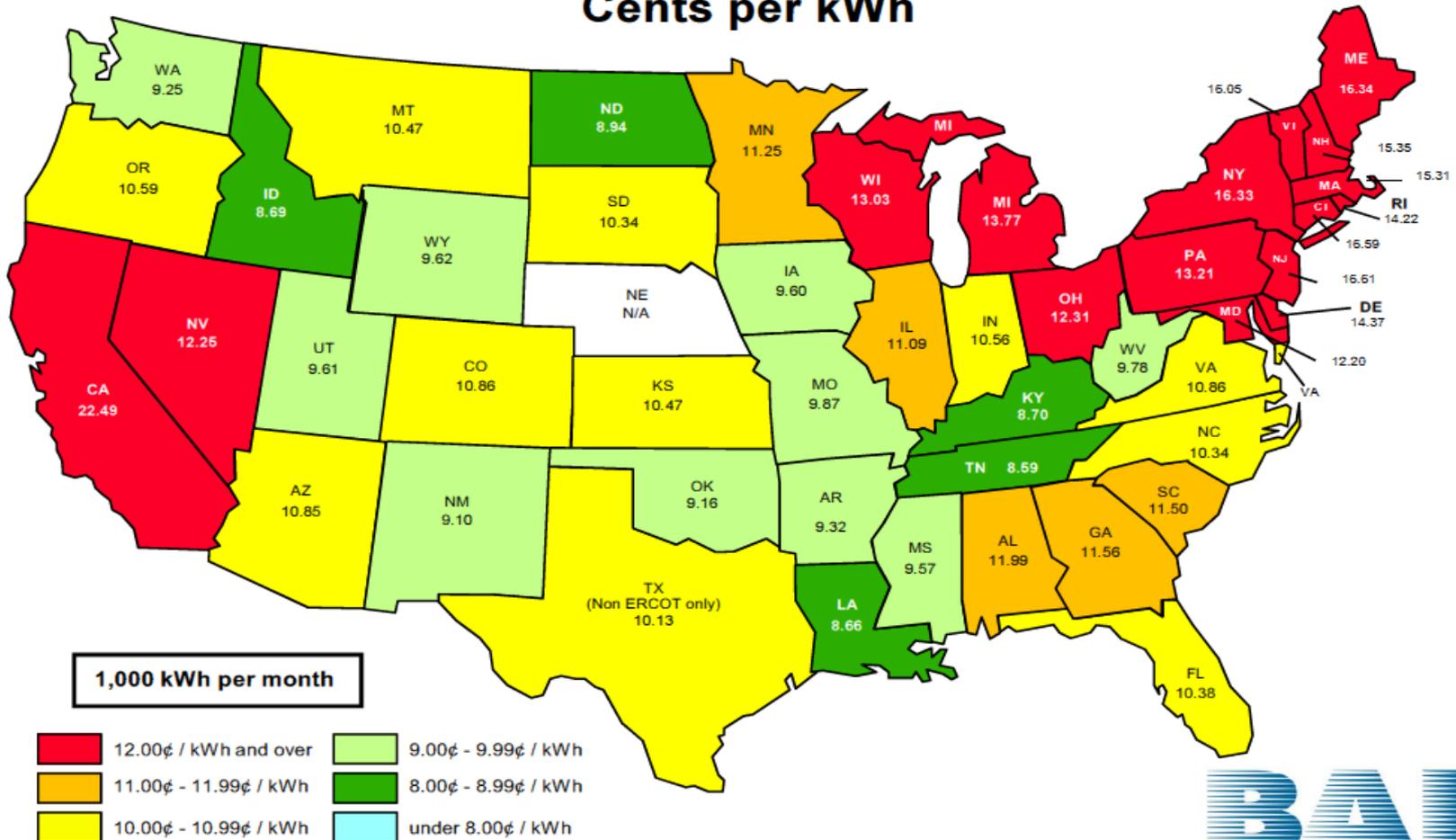


Source: Rates: Edison Electric Institute, Winter 2012 & Summer 2012  
Weighting: Energy Information Administration/Electric Sales and Revenue

February, 2013

**BAI**  
BRUBAKER & ASSOCIATES, INC.  
Phone: (636) 898-6725  
E-mail: bai@consultbai.com  
Web page: www.consultbai.com

# Year 2012 Residential Electric Rates For Investor Owned Utilities Cents per kWh



Source: Rates: Edison Electric Institute, Winter 2012 & Summer 2012  
Weighting: Energy Information Administration/Electric Sales and Revenue

February, 2013

**BAI**  
BRUBAKER & ASSOCIATES, INC.  
Phone: (636) 898-6725  
E-mail: bai@consultbai.com  
Web page: www.consultbai.com

## Potential Choice Savings for Michigan

- Market is now \$25/MWh less than utility supply.
- 9.4 million MWh served competitively = 11%.
- 9.4 million MWh in the unserved queue = 11%.
- 9.4 million MWh x \$25 = \$235 million in potential savings.

### Sources:

- ABATE member average per MWh savings in 2012
- "Status of Electric Competition in Michigan," PSC, February 1, 2013

## ABATE Member Experience

- 2012 Choice savings in Michigan: \$34 million (25% savings)
- 2012 Choice savings in other states compared to average Michigan utility rates: \$65 million

## **Lifting the Cap on Choice Could Avoid a New Plant**

- Consumers has:
  - 776 MW of Choice in service
  - 2072 MW of Choice enrolled
- Lifting the cap would be a no cost option to replace the need for a \$750 million utility owned generating plant.

Source: "Status of Electric Competition in Michigan," PSC, February 1, 2013

## The Timeline for Action is Too Slow

- On December 14, 2012, Consumers Energy announced its plans to build a \$750 million gas combined-cycle plant in Thetford Township, Genesee County.
- Consumers filed for an air permit in December, 2012, and it takes approximately 6 months for the State to issue one.
- Consumers will file this summer for a certificate of necessity (“CON”), which guarantees cost recovery.

## The Timeline for Action is Too Slow (Cont'd.)

- The PSC must deny or grant a CON within 270 days.
- Consumers could obtain an air permit by June 2013, file for a CON in July, and receive a CON in the first quarter of 2014.
- If granted, the CON will set state policy: utility-owned central station power plants without input from the Governor or the Legislature.
- This process to determine state energy policy must be speeded up or it will become irrelevant.

## Customer Cost Impacts of Act 286

- Projected test year
- Self-implemented rates
- Actual refunds

## Projected Costs vs. Actual Costs

- Act 286 states:  
“A utility may use projected costs and revenues for a future consecutive 12-month period in developing its requested rates and charges.”
- “Projected costs” is an unworkable standard.
- Utilities can project investment and then not make that investment.
- The prohibition against retroactive ratemaking prevents the Commission from rescinding a previous rate increase.

## Projected Costs vs. Actual Costs (Cont.)

- “Actual costs” are verifiable and allow for more accurate rates.
- With the ability for the utility to file a new rate case every 12 months, there is no need to use projected costs.

## Self-Implemented Rates

- Act 286 allows utilities to self-implement rates up to the amount requested 180 days after the filing of the application.
- Since the passage of Act 286 in 2008, utilities have self-implemented over \$1 billion in rate increases.
- No standards govern the rates.

## Self-Implemented Rates (Cont'd.)

- Prior to Act 286: Utilities had to make a showing that they deserved an interim increase.
- Staff would review finances and issue a report.
- Time value of \$1 billion over 6 months = \$15 million (3% interest rate).

## Actual Refunds

- The Commission does not require actual refunds of over-collections from customers.
- Self-implementation of rates has lead to refunds when the final rate order is less than the amount the utilities have self-implemented.
- The Commission uses a prospective month refund methodology that is based on consumption during that month.

## Refunds (Cont'd.)

- The method ensures that any refund will not match the over-collection amount due to variations in consumption.
- If a customer changes status by moving to Choice, the customer will receive no refund.
- The same is true if a customer changes to a new tariff.
- The current refund methodology is fundamentally unfair.

## Refunds (Cont'd.)

- The current methodology penalizes certain customers and provides a windfall to other customers.
- Refund amounts to date total \$110 million.
- One ABATE member lost a \$1 million refund when it moved to Choice.