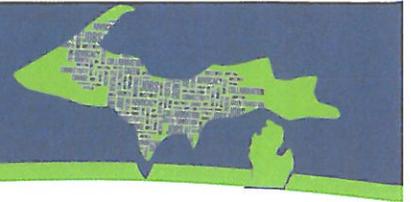




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Energy Policy Position Paper

I am speaking to you today on behalf of the Energy Task Force under the umbrella of the Lake Superior Community Partnership.

Several years ago, we recognized the need for a regional energy task force that would share information and create strategies that support economic development throughout the Upper Peninsula. Through the collaborative work of the energy task force and other regional initiatives, it should be apparent that we clearly understand the vital importance of gaining access to reliable and affordable energy. We also understand the necessity of monitoring and influencing policy and regulatory decisions that may impact our ability to retain and grow our economy.

Having reviewed the information and questions posed for this hearing, it became apparent that we needed to highlight the unique differences that exist between the Upper Peninsula and the rest of the state. The UP is distinctly different in many ways, including our energy infrastructure and the resources that we depend on to meet our demand for energy. These differences must be taken into account as new energy policy is contemplated and developed for the State of Michigan. To be clear, the "one-size-fits-all" approach to policy and regulation can, and does have a deleterious impact on the Upper Peninsula.

In order to set the stage for my remarks, one must understand our history and how we got to where we are today. Historically, the economy of the UP has been based on the extraction and utilization of our natural resources (mining, paper industries, etc.). These industries established electric loads where the natural resources were located. At that time in our history, the electrical infrastructure did not exist to support and serve the needs of industry. As a result, most of the generation that exists in the UP today was initially constructed by industry to serve their site-specific needs. Consequently, these generators and related infrastructure were sized to meet the requirements of industry and were not necessarily the typical "utility scale" one might expect to see today.

Over time, additional electrical infrastructure was developed that supplemented local industrial resources. This additional infrastructure substantially integrated the UP with Wisconsin due to geography and our commercial nexus with our neighbor. As time progressed, Wisconsin-based energy resources became available to the UP via an expanding high voltage electric transmission system. This trend has continued, in an accelerated fashion since 2001 with the establishment of American Transmission Company.

Today, the UP's businesses, industry and residential population of ~300,000 persons are served by 4 Investor-Owned Utilities, 3 Electric Cooperatives, and 11 Municipally Owned utilities. The UP also hosts several Independent Power Producers (IPPS) and Alternative Energy Suppliers (AES'). This scenario creates a highly fragmented market share that yields a lack of customer diversity throughout the UP. In some cases, the utilities' customer base is almost exclusively composed of residential or recreational load. While others serve a customer base that predominantly consists of large industrial electric loads concentrated at one or two locations. And still others exist to serve the population centers that are located throughout the UP.

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The electrical generating capacity that is located throughout the UP is old. Approximately 1,200 MW of generating capacity has been constructed during the past 120 years and nearly all of it is still in service.

More than half of this capacity is 50+years' old and is experiencing age and condition issues, uncompetitive production costs and challenging environmental compliance standards. Many of these industry-owned assets were eventually acquired by several Wisconsin-based utilities that now serve the region. The large industrial loads that were associated with these generating assets became retail customers of the acquiring utilities, and have benefitted from the considerable investments made by the energy industry to maintain, upgrade and expand our infrastructure.

As previously noted, ATC has made considerable investments in the high voltage electric transmission system that serves the UP. ATC's investments have increased reliability; reduced congestion and loss costs reflected in our energy bills; and, increased our access to MISO's energy market.

With that, I'd like to summarize some of the unique challenges that exist in the UP today that must be considered whenever contemplating the development of a statewide energy policy. These challenges include:

- Some UP utilities are subject to the jurisdiction of multiple states presenting unique policy and regulatory challenges
- Michigan's policies and regulations may actually create a disincentive for utilities seeking to make investments in the UP
- UP customers need to have access to diverse generating resources within, and beyond the UP
- UP utilities lack diversity with their customer base
- "One-size-fits-all" policy may actually harm UP customers
- Preclusion of the recovery of costs that are shared across state lines
- Anticipated closure of a major industrial employer

As this process moves forward, we ask that you continue to engage the stakeholders of the Upper Peninsula and bear in mind our unique challenges. We strongly believe that one size does not fit all in this process and encourage policy decisions be thoroughly vetted with UP stakeholders to ensure.