

Electric Choice 24: From an economic standpoint, what is the impact on MI of the jobs, infrastructure, supplier base, and tax base provided under the current regulatory structure vs. what could be expected under an open market system?

Executive Summary

1. For over a century DTE Energy, Consumers Energy, and the Michigan Gas and Electric Association (MEGA) electric utilities in Michigan have existed as Michigan owned and operated companies under a regulated structure with oversight by the state.
2. Electric utilities, and their municipally owned counterparts, employ thousands of Michigan workers, purchase services and products from Michigan suppliers, and support their Michigan retirees. Taxes or payments in lieu of taxes also contribute directly to government services in Michigan.
3. Electric utilities have invested billions in the electric infrastructure in Michigan for the benefit of Michigan's residents and businesses to ensure a safe, reliable, and affordable electric system well into the future. Utilities are also planning new investments to ensure long-term adequate supply of electric generation, which will bring new jobs, expand the tax base, and provide other benefits.
4. Raising the cap on deregulation or moving to full deregulation of the state's electric system may at times produce short-term savings for a few customers, but it would require the remaining overwhelming majority of Michigan residents and businesses to pay for the benefits of the very few. In addition, as we have learned from other states, deregulation would mean forgoing the economic benefits associated with new capacity that will be needed in Michigan in order to maintain the state's overall electric reliability at current standards.

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- 1. For over a century DTE Energy, Consumers Energy, and the Michigan Gas and Electric Association (MEGA) electric utilities in Michigan have existed as Michigan owned and operated companies under a regulated structure with oversight by the state.**

As in many other states, Michigan began regulating electric rates and conditions of service around the turn of the 20th century (1909 in Michigan). The regulatory system has evolved in its level of sophistication but the basic approach remains the same: to ensure just and reasonable rates and avoid unnecessary duplication of services. Under the regulated model, electric utilities are allowed to earn a fair and reasonable return on investments and recover their prudent expenses necessary to serve Michigan residents and businesses in their designated service territory with safe, reliable electricity. The state regulation ensures utility investments and expenses are responsible and necessary, thereby balancing the utility's financial interests with the public interest.

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As Michigan owned and operated companies serving over 5 million customers throughout the state, electric utilities have a significant impact on the Michigan economy. In 2010, the electric industry was responsible for over \$10.2 billion of direct economic impact to Michigan's economy and

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indirectly responsible for an additional \$4 billion in economic impact to the state.¹ The state's electric utilities also:

- Support nearly 100,000 jobs (full-time equivalent or "FTE") annually including directly providing 25,175 jobs plus more than 8,300 jobs (FTE) through various suppliers including maintenance, repair, construction, forestry, and other products and services. In addition, as utility employees spend part of their income on homes, food, health care, and other products and services in the local economy, this spending supports an additional 57,122 jobs (FTE).
- Provide over \$3 billion in tax revenues to federal, state, and local governments annually to help pay for government services. (Municipal utilities do not pay taxes but typically contribute payments in lieu of taxes to support local services.)

Utilities base their headquarters and operations throughout Michigan. They are also staffed by Michigan workers and use many Michigan suppliers in the areas of construction, IT, maintenance, and other services. For example, as part of the state's recent Pure Michigan Business Connect Initiative, DTE Energy and Consumers Energy continue to increase their use of Michigan-based suppliers. DTE Energy's involvement has resulted in \$1.9 billion going to Michigan suppliers over a three-year period from 2010–2012. This includes \$300 million to local suppliers based in the city of Detroit, where DTE is headquartered. Similarly, Consumers Energy is on track to increase spending with Michigan-based suppliers by \$250 million by 2015, or \$50 million a year.

3. Electric utilities have invested billions in the electric infrastructure in Michigan for the benefit of Michigan's residents and businesses to ensure a safe, reliable, and affordable electric system well into the future. Utilities are also planning new investments to ensure long-term adequate supply of electric generation, which will bring new jobs, expand the tax base, and provide other benefits.

Since the passage of PA 295 of 2008, utilities have made considerable investments to promote cleaner energy sources and more efficient use by families and businesses. This includes over \$1 billion in new renewable energy investments and energy efficiency programs to date, as discussed further under Renewable Energy Questions 1 and 2, and Energy Efficiency Question 3. Moreover, DTE Energy and Consumers Energy will invest approximately \$4.5–\$5 billion in environmental upgrades between 2012–2021 to comply with new federal regulations and lower the environmental impact of Michigan's power plants.

Recognizing the need to ensure long-term adequate supply of generation, the long lead time required to site and build new power plants, and the need to replace an aging fleet of coal-fired power plants over time, utilities are also taking steps to obtain necessary approvals for new generation plants. For example, Consumers Energy has announced its plans to construct a new \$750 million natural gas plant in Genesee County. And DTE Energy continues to pursue a federal permit from the Nuclear Regulatory Commission for a new nuclear reactor as part of its long-term reliability strategy. New power plants produce significant short- and long-term economic benefits to the state.²

¹ The Edison Electric Institute, *Economic Impact of the Electric Power Industry: Michigan*, (2013).

² By way of example, the \$2 billion coal-fired power plant studied by Consumers Energy as part of the implementation of the 21st Century Energy Plan was estimated to produce over \$1.2 billion in total economic impacts to the state during the seven-year construction phase. It would have produced an estimated 1,800 construction jobs along with at least 80 permanent jobs.

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As discussed in detail under Electric Choice Questions 1 through 6, considerable data support the conclusion that increasing the cap on deregulation or full deregulation of Michigan’s electric industry would not produce positive economic benefits for the state. Key conclusions include:

- Deregulation has not produced lower rates compared to states with continued regulation.
- Michigan’s electric rates are well below those of most deregulated states.
- Any short-term savings from raising the deregulation cap in Michigan would benefit a few customers while shifting additional and unfair cost burdens to the rest of the customers.
- The MPSC concluded in 2010 that further separation of utility-owned generation from distribution (which has been typical in fully deregulated states) would lead to higher customer costs.³ The MPSC examined this issue in detail and found that such separation was neither desirable nor necessary from an economic standpoint.
- Deregulated states, including New Jersey, Maryland, Texas, and California, have struggled to ensure that sufficient generation capacity is built. This challenge to long-term reliability not only causes states to lose out on the economic benefit from new generation investment (e.g., jobs, taxes), but also can impose negative impacts on the overall economy of these states. Even short-term outages or reliability challenges create real costs to businesses and families. Studies have estimated that electric power outages and blackouts cost the nation as a whole about \$80 billion annually.⁴ This includes momentary disruptions as well as sustained outages. The California deregulation crisis was a fairly extreme situation, with outages as well as price spikes costing approximately \$40 billion.⁵

³ Michigan Public Service Commission, *Report on the Advisability of Separating Generation and Distribution within Electric Utilities in Michigan*, October 6, 2010. Available at: www.michigan.gov/documents/mpsc/MPSC_Report_on_Advisability_of_Separating_Generation_and_Distribution_100610_334647_7.pdf. See also filings under MPSC Case No. U-16196.

⁴ Kristina Hamachi LaCommare and Joseph H. Eto, Lawrence Berkeley National Laboratory, *Understanding the Cost of Power Interruptions to U.S. Electricity Consumers*, LBNL-55718, September 2004. Available at: <http://certs.lbl.gov/pdf/55718.pdf>. See also Eto et al., *Scoping Study on Trends in the Economic Value of Electricity Reliability to the U.S. Economy*, LBNL-47911, June 2001. Available at: <http://certs.lbl.gov/pdf/47911.pdf>.

⁵ Christopher Weare, Public Policy Institute of California, *The California Electricity Crisis: Causes and Policy Options*, 2003. Available at www.pplic.org/content/pubs/report/R_103CWR.pdf.