Michigan Municipal Electric Association

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April 25, 2013

John D. Quackenbucsh
Chairman
Michigan Public Service Commission

Steve Bakkal
Director
Michigan Energy Office

Re: Readying Michigan to Make Good Energy Decisions

Dear Gentlemen:

The Michigan Municipal Electric Association (MMEA) is Michigan's trade group for municipally owned electric utilities. The 41 communities in MMEA own and operate their own electric utilities provided for approximately 8% of Michigan's total electric retail sales in 2011.

Cities or villages with municipal electric systems provide electric service to their residents, just as communities commonly provide water and sewer service. As units of local government, municipal electric systems are non-profit, community owned and operated, and regulated directly by the community they serve through elected and/or appointed officials. As such, every citizen is an owner of the utility - having the opportunity to have a direct say in decisions that affect rates, service, and policy.

The benefits produced by public power stay in the local community – whether in the form of lower rates, increased electric reliability, and financial and non-financial contributions made to the community. Nearly all MMEA members have been in existence for over 100 years.

MMEA is appreciative of the opportunity to participate in the February 14, 2013 public forum hosted by yourselves on behalf of Governor Snyder, who charged you with this responsibility during his Energy & Environment address on November 28, 2012.

In addition to the public forums, a website has been established at www.Michigan.gov/energy for the purpose of collecting information on Michigan's Energy Future. Titled *Readying Michigan to Make Good Energy Decisions* the questions focus on three main areas: electric choice, renewable energy, and energy efficiency.

The MMEA Board of Directors was given the courtesy of reviewing answers presented by a utility coalition made up primarily of DTE Energy, Consumers Energy, and members of the Michigan Electric and Gas Association (MEGA). MMEA appreciates this gesture, and would like to recognize and thank the utility coalition for the time and effort put into preparing their responses.

Where the utility coalition has provided factual information, MMEA finds the information useful, and to the best of our knowledge accurate.

Instead of joining the coalition in their response, MMEA thought it would be best to provide you with our thoughts and concerns regarding the three main areas of interest: electric choice, energy efficiency, and renewable energy.

Electric Choice

In 2006[1] and 2007[2], MMEA and Protect Michigan[3] jointly retained Public Sector Consultants[4] for the purposes of conducting studies that focused on the market structure for electricity in Michigan. While the facts are out-dated, MMEA believes that much of the information related to problems associated with a deregulated market is still relevant today.

In reviewing the 26 questions related to electric choice, MMEA believes that the answer to question #7 put forth by the utility coalition best represents the concerns of our members. Following is Electric Choice Question #7 and the response of the utility coalition supported by MMEA.

> Electric Choice Question 7: What has been the experience of other states in terms of meeting capacity needs under various market regimes (i.e. fully regulated, partially restructured, and restructured)?
>
> > Regulated models support a long-term investment planning process that ensures capacity is available for future reliability at reasonable cost-of-service and that the overall generation portfolio provides for fuel diversity and other needs such as environmental protection.
> >
> > Electricity is fundamentally different from most other industries and products and its unique characteristics require the electric system to have a margin of safety to ensure reliability. The reliability of the electric system is a public good that benefits everyone by supporting a strong and stable economy, protecting health and safety, and providing other intangible benefits.
> >
> > Public goods tend to be under-produced and under-invested in under free market conditions, producing market inefficiency. Economic theory supports government regulation to ensure sufficient production of a public good such as electric reliability. Without sufficient investment in reliability, we risk facing brown- or black-outs, with potentially drastic societal and personal consequences.
> >
> > The full extent of the challenges of meeting capacity needs under deregulation has not yet been experienced. The country has had an oversupply of generation and reductions in load due to recession. These conditions have masked the difficulty of building new generation under a deregulated model. This challenge will become more apparent as we try to invest in new generation in the future.

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[1] Electricity Restructuring in Michigan: The Effects to Date of Public Act 141 and Potential Future Challenges

[2] Market Structures and the 21st Century Energy Plan

[3] Protect Michigan is a 100,000-member strong coalition of labor organization members, business leaders, and energy industry experts, formed during the 1990s to educate Michigan citizens about electric utility deregulation.

[4] Public Sector Consultants Inc. is a private Michigan corporation providing policy research in the areas of health, education, economics, the environment, and technology; survey research; program evaluation; and strategic planning.

Texas, a deregulated state, is facing reliability issues as the deregulated ERCOT model has not effectively supported new generation investment to meet capacity needs. New Jersey and Maryland, deregulated states, have required state-sponsored contracts for new generation to address reliability concerns, as the deregulated PJM model has not incented sufficient new generation investment.

> *"Because the wholesale market conditions in ERCOT have not been favorable due to the fleet makeup and low electric prices, investment appears to have stalled. This lack of investment threatens resource adequacy in the near future"*

Source: The Brattle Group, "ERCOT Investment Incentives and Resource Adequacy" June 2012

The challenges of investing for reliability in a deregulated market will become more apparent – as in Texas, New Jersey, and Maryland – as we try to invest in new generation in the future given retirements of aging coal plants, a transition toward new and cleaner generation plants, and the return of load growth.

In 2008, the Michigan legislature recognized the longstanding history and success that local control plays in allowing customers of municipally owned utilities to have input into the decision making process. Accordingly, in crafting PA 286 the legislature allowed the governing bodies of municipal utilities to decide whether to allow retail open access for their utility [see MCL 460. 10Y(1) below]. To date, no MMEA members have opted to implement an open access model.

> **460.10y Municipally owned utility; requirements.** (1) The governing body of a municipally owned utility shall determine whether it will permit retail customers receiving delivery service from the municipally owned utility the opportunity of choosing an alternative electric supplier, subject to the implementation of rates, charges, terms, and conditions referred to in subsection (5).

For the aforementioned reasons, MMEA supports the present language contained in 2008 PA 286 Section 10y.

<u>Renewable Energy</u>

The commitment of MMEA members to invest in renewable energy is based on a long-standing commitment to citizen/customer priorities such as cleaner energy. The Lansing Board of Water & Light was the first utility in Michigan to commit to a renewable energy standard, and it was Traverse City Light & Power that built the first utility scale wind turbine, which was fully subscribed to through a voluntary premium by supportive customers.

All MMEA members, with the exception of two, are on schedule to meet the 10% renewable energy standard by 2015. The reason two members are unable to meet the standard is due to the rate caps being based on a per customer basis, while PA 295 renewable standards are based on total retail sales. If a utility has a few large customers providing a large percentage of the retail sales, but the utility can only collect a per meter charge, then that utility may not be able to meet the standard without exceeding the rate caps. This is more likely to happen with smaller utilities.

MMEA members would urge policy makers to proceed with caution when consideration is given to increasing the 10% standard. MMEA members will always seek the best value when deciding what generation to invest in, and renewable energy will remain an important part of our generation portfolio.

However, government mandates can have the unintended consequence of driving up the price of renewables by sending signals to renewable developers that utilities have no other viable option of generation (to meet the mandate or threshold). The lower the cost of renewable generation, the more of that generation type utilities will purchase.

In addition, policy makers need to consider several of the issues stated in the utility coalition response to Renewable Energy Question 5. Transmission, back-up capacity, and integration of intermittent resources to the electric grid are costs that many times are hidden in the final rate paid by the customer.

MMEA and its customers support renewable energy today, and will continue to do so going forward. However, it is our belief that our customers through input to their local governing bodies, is a preferable method of driving investment in renewable generation visa vie government mandate.

Energy Efficiency

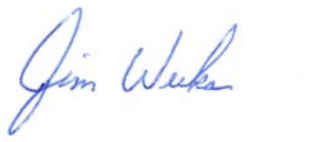
To date, municipal utilities have been able to meet the energy savings goals as required by 2008 PA 295. However, it has become apparent that it will become more challenging to meet these requirements/goals going forward due to changes in appliance and lighting standards, together with the implementation of the most cost effective measures by early adopters ("low hanging fruit"). In the future, implementing energy efficiency measures will become more expensive, and thus, municipals will be less likely to achieve the savings goals while remaining under the spending caps (2012 initial annual report results are showing between 25-30% of the municipals did not meet the energy savings goals).

The MPSC has recognized a need to provide flexibility to small utilities as shown in case number U-17008. MMEA appreciates this recognition by the Commissioners, and commends MPSC staff for their effort in working with MMEA members to implement energy efficiency measures. Given that municipals are locally regulated, MMEA believes that after 2015 state public policy should allow MMEA governing bodies to determine what goals and program offerings are best suited for their customers. As not-for-profit utilities, it will always be in the utility's best interest to invest in energy efficiency when it less expensive (and more environmentally friendly) than new plants or purchasing from the wholesale market.

Again, on behalf of our 41 members, the MMEA Board would like to thank Governor Snyder for his leadership in Readying Michigan to Make Good Energy Decisions, and thank both of your for carrying out your charge in such a exceptional manner.

Please contact me should you have any questions regarding our submission.

Regards,



Jim Weeks
Executive Director

C: MMEA Members