JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
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May 21, 2010

The Honorable Jennifer M. Granholm
Governor of Michigan
2nd Floor, Romney Building
Lansing, MI 48909

Dear Governor Granholm:

In response to your inquiry regarding the proposed Wolverine Power Cooperative (Wolverine) electric generating plant, I would like to provide the following information.

You asked for an analysis of whether the proposed plant was needed to meet Wolverine's future electricity supply needs, and to estimate the likely impact of the proposed plant on residential customer rates. The short answers to your requests are: No, the plant is not needed to meet Wolverine's supply needs and the plant would result in an estimated rate increase of $76.95 per month for the average Wolverine residential customer.

On September 8, 2009, the staff of the Electric Reliability Division issued its report to the DEQ regarding Wolverine's Electric Generation Alternatives Analysis (EGAA) filing. In this report the Staff noted that Wolverine failed to demonstrate the need for the proposed facility. Staff also noted long-term purchase power options were not fully explored as part of Wolverine's analysis and no evidence was presented that the capacity currently supporting this existing contract with Detroit Edison will be unavailable in the future. Further, given Michigan's current recessionary condition and uncertainty concerning the time frame for recovery, Wolverine's forecasted demand growth of approximately 2.0% appears questionable, or optimistic, and the risk associated with this uncertainty was not fully addressed.

Subsequent to the September 8, 2009 filing, Staff of the MPSC conducted further analysis of the viability of Wolverine's proposed project. As a result of this analysis, Staff determined that the proposed cost of the facility was underestimated. Staff expects the plant to

cost at least $3,800/kW[1] including AFUDC[2] and owners' costs compared to Wolverine's $2,484/kW overnight[3] cost estimate included in their study. The cost to ratepayers of this facility is excessive due to the inability of Wolverine to balance the high energy cost of the new facility with lower cost power from existing embedded cost units. The 600 MW plant would provide Wolverine with excess energy that would be sold into the MISO market to recover fixed costs at prices that are currently depressed creating a loss for each MWh sold.[4] Due to the level of economic activity in the region, a surplus of electric generating capacity and low cost energy is available.

Using Wolverine's own cost estimates from its EGAA of $89.25 per MWh, the cost of the new facility is double the cost of Wolverine's current wholesale power contract, resulting in a substantial increase in rates charged to Co-Operative customers.[5] Staff's analysis using a more current estimate of construction costs and including the cost of required transmission improvements results in an estimated cost increase of $76.95 per month for a typical Co-operative customer.[6] As noted in the Staff report on Wolverine's EGAA, the proposed CFB plant is one alternative out of a range of alternatives that may be used to fill the projected capacity need. Other alternatives could be used to meet all or portions of the projected capacity need and energy needs including: energy efficiency, load management, renewable resources, and a combination of alternatives, including purchased power. Most of these alternatives could provide capacity and energy to the Co-Operative customers at a substantially lower cost than the proposed Wolverine generation facility. The proposed new facility would be a costly mistake for Co-Operative customers served by Wolverine.

Very truly yours,

Orjiakor N. Isiogu, Chairman
Michigan Public Service Commission

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[1] The Staff estimate is based on an overnight cost of 3000/kW. American Municipal Power Generating Station Project Feasibility Study October 2008 update estimated that its project would cost $3,257/kW on an overnight basis, subsequent increases in the cost estimates caused the project to be cancelled. Wisconsin Public Service Commission staff submitted testimony containing cost estimates in Docket 6680-CE-170 of $3,600/kWfor a project that had its CON rejected by the Wisconsin Commission for being too costly. The Black and Veatch study submitted with the recent Holland Board of Water and Light EGAA contained cost estimates of $3,400/kW for a 2 x 300 MW CFB unit.

[2] "AFUDC" Allowance for Funds Used During Construction represents the financial cost of supporting the invested capital costs during the period the facility is under construction.

[3] "Overnight" construction cost estimates assume that the facility is built with no construction carrying costs.

[4] The most recent MISO monthly report for February reported that for 86% of the hours in February the locational marginal pricing was below $50/MWh and roughly 50% of the period the locational marginal pricing was below $35.00, compared to a Staff estimated cost of power from the proposed Wolverine facility of $111/MWh.

[5] The typical Co-Operative customer using 1000 kWh per month would see a $44.25 per month increase.

[6] The current Staff estimate shows an estimated Co-Operative rate of $.207 per kWh compared to the current Co-Operative of $.13 per kWh per current tariffs.