

Michigan's Electric Market

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February 25, 2013



FirstEnergy Solutions (FES)

- **Subsidiary of FirstEnergy Corp.**
- **Owns 18,000 megawatts of generating capacity**
- **Second largest retail supplier of electricity in US to Residential, Commercial and Industrial accounts**
- **Regional provider, serving customers in 100% customer choice states of OH, PA, IL, NJ and MD**
- **Serving Michigan customers since 2002**



Experience of FirstEnergy Corp.

- **Ohio's Senate Bill 3 in 1999 created competitive markets, mandating unbundled rates and customer choice beginning 2001**
- **FirstEnergy**
 - Separated regulated and unregulated operations
 - Transferred ownership of power plants from electric distribution utilities to a competitive subsidiary
 - All generation investments – including the attendant risks – are borne by shareholders, not by captive ratepayers
- **Since 1999, FirstEnergy Solutions has added generation**
 - Invested nearly \$6.4 billion in our generating fleet, including \$1.8 billion in new environmental controls – all at no risk or cost to captive ratepayers

Investment in Generation Will Continue

- **In Ohio since 1999:**
 - More than 10,200 MW of new generation has been added
 - Another 2,100 MW scheduled to be built by 2016
- **COMPETE Coalition estimates that PA added 8,500 MW of new generation since the passage of the Electric Choice act in 1996**
- **FirstEnergy Solutions has nearly 500 MW of wind under long-term contracts and nearly 1,700 MW total renewable power**

System Reliability Will Continue

■ Michigan is not an island

- Michigan is part of the eastern US interconnect power system, within the MISO (Midwest Independent System Operator) footprint
- Michigan utilities participate in the regional wholesale market, importing power from and exporting power to customers in other states

■ Per federal regulations, MISO is responsible to ensure adequate capacity is available to serve Michigan

- ITC Holdings as transmission owner shares responsibility with MISO for the Detroit Edison and Consumers territories

■ MISO has implemented a Resource Adequacy construct

- Designed to incent generation construction when and where needed

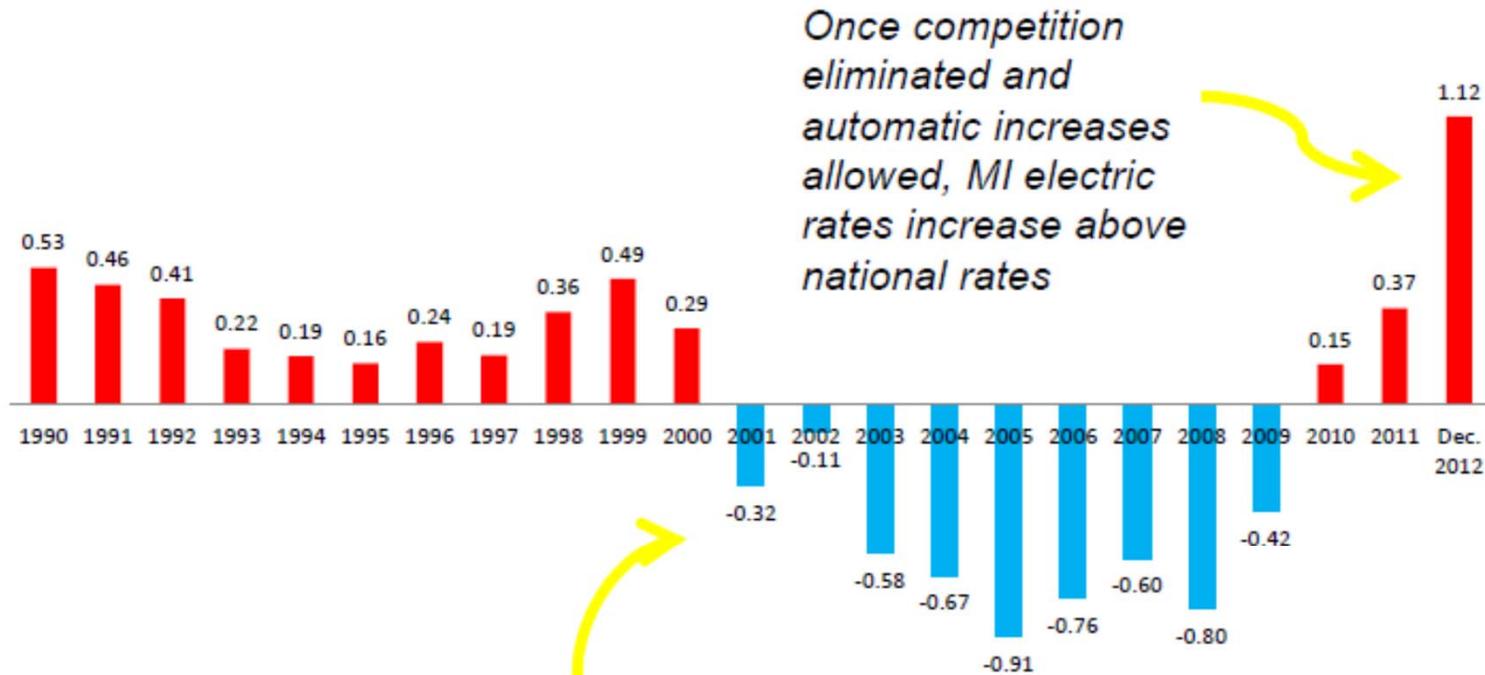
■ Multi-Value Projects

- Projects such as Michigan Thumb Loop Expansion ensure greater reliability across MISO by identifying areas of congestion and recommending transmission upgrades

Electric Choice Question #7

Michigan Rates Have Skyrocketed

Michigan rates compared to national rates, 1990 to present



Michigan rates were above national average – until competition started in 2000

Data from U.S. Energy Information Agency

Electric Choice Question #9

Savings from Choice

- **FES is the second largest retail supplier in Michigan**
- **The COMPETE Coalition estimates unrealized savings of customers in the queue of \$180 million annually**
- **FES dual-bills (provides a second, separate bill for generation charges) all its Michigan customers**
 - FES pricing is non-public, like most suppliers that dual-bill
 - No other company has the information necessary to compute customer savings for accounts served by FES or other dual billers

End State for Michigan's Electric Market

- **Now is the time for full retail electric competition in Michigan**
 - Regulated rates continue to rise
- **Elements of successful retail competition**
 - Corporate separation (generation separated from “wires” business)
 - Asset transfer or divestiture
 - Ensure utility “wires” business remains financially strong, while giving generation owning affiliates a fair chance to compete
 - Wholesale auctions for default supply
 - Ensure rates reflect market prices for customer choosing not to exercise choice
 - Removes incentive for utilities to favor competitive affiliates
 - No caps or restriction on shopping; open to all customers

Electric Choice Questions #2, 3, 4

Municipal Aggregation

A Choice option for residential and small businesses

- **The MPSC “Status of Electric Competition in Michigan” report states that the number of residential choice customers is negligible**
- **Municipal Aggregation allows residential and small business customers to pool together through a governmental entity to attract larger savings from the competitive market**
- **FES serves 1.6 million customers through municipal aggregation programs in multiple states**
- **Illinois Commerce Commission Office of Retail Market Development 2012 Annual Report showed savings of \$16.4 million in the first five months of 2012**
 - Does not include savings from over 300 communities who have since shopped, including the City of Chicago

Electric Choice Questions #3, 16

Municipal Aggregation

A Choice option for residential and small businesses

- **NOPEC, one of the nation's largest municipal aggregations, estimates that by 2019 its customers will have saved more than \$300 million**
 - NOPEC customers have already saved more than \$175 million since 2001 through NOPEC's opt-out electric aggregation programs
 - Current NOPEC program, which runs through 2019, will save customers an additional \$130 million or more on their electric costs
 - NOPEC's nearly 500,000 customers are supplied by FES

Summary

- **Competitive markets and Customer Choice work**
 - Lower electric generation prices for all classes of customers
 - Increase productivity and efficiency from existing power plants
 - Shift risk from captive ratepayers to shareholders