



Honorable John Quackenbush
Chairman
Michigan Public Service Commission

October 17, 2013

Mr. Steve Bakkal
Director
Michigan Energy Office

By electronic transmission

Re: Comments on Additional Areas Draft Report,
 Readying Michigan to Make Good Energy Decisions

Dear Chairman Quackenbush and Director Bakkal:

The American Coalition for Clean Coal Electricity (“ACCCE”) was pleased to participate in the March 18 public hearings in Kalamazoo on Governor Snyder’s initiative to inform future energy policy decisions in Michigan. We subsequently submitted several documents for the record of this process, which we hope that you will find of value as you develop policy positions for future Michigan energy policies.

I am writing to provide some additional perspective on issues discussed in the October 1, 2013, Draft Report on “Additional Areas.”

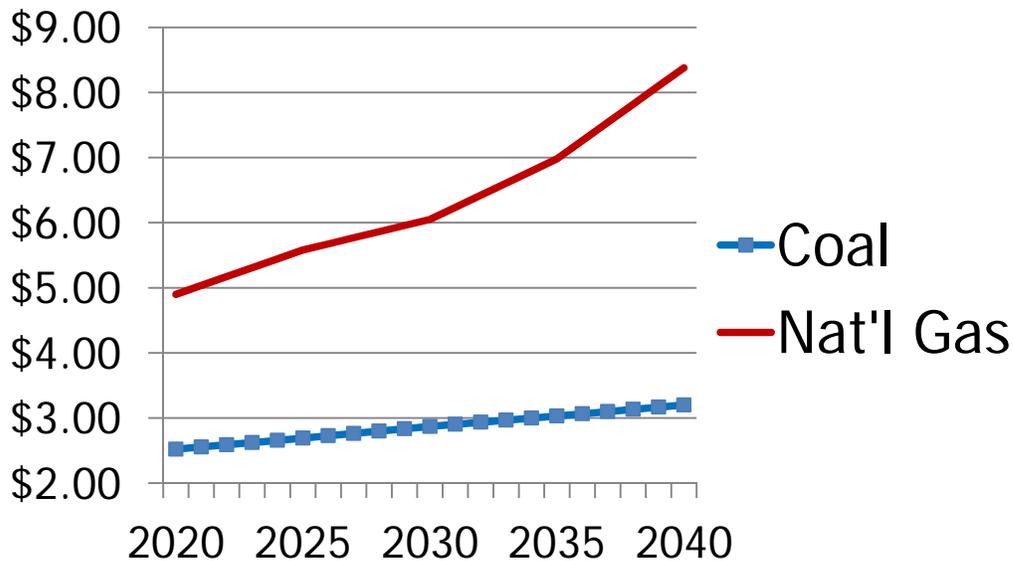
As noted in our Kalamazoo presentation, ACCCE members include DTE Energy, Consumers Energy and Indiana Michigan Power as well as the major railroads supplying coal and other rail transport services to Michigan. ACCCE fully supports its members’ positions in this proceeding, and appreciates the opportunity to participate.

Fuel and Electric Price Volatility

One of the issues discussed in the Additional Areas draft report (at 21-25) is the historical increase in the cost of coal delivered to utilities in Michigan and other states in the Great Lakes region. We note that the most recent DOE/EIA delivered coal cost data for the East North Central region show that the cost of coal delivered to Michigan electric utilities decreased by 11% between July 2012 and July 2013, from \$2.93 to \$2.61 per Million BTU.¹ For the Great Lakes region, the decrease in delivered coal costs was 7%.

While historical cost comparisons are useful, it is critical to consider the future price outlook for competing fossil fuels such as coal and natural gas. The current DOE/EIA Annual Energy Outlook (2013) provides long-term projections of future delivered coal and natural gas prices in constant 2010 dollars, as summarized in the chart below:

**DOE/EIA Reference Case Projections of
Delivered Coal and Natural Gas Prices, 2020-2040
(In constant 2010 \$/MMBTU)**

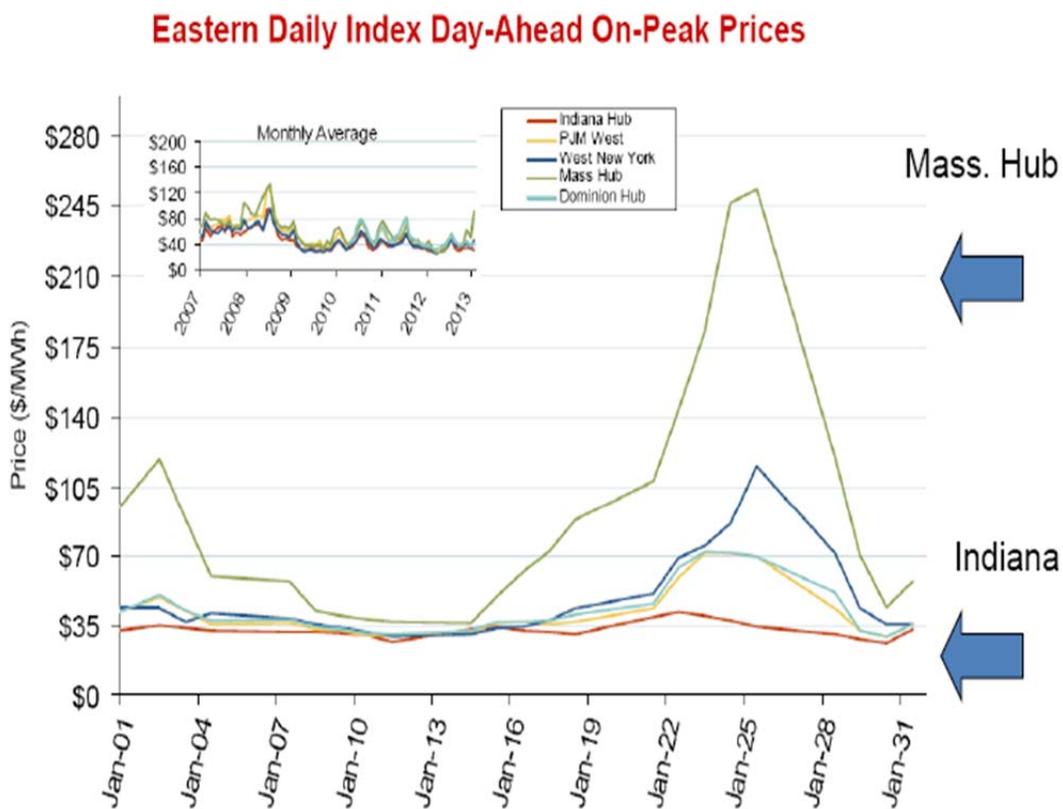


Source: DOE/EIA Annual Energy Outlook, Table A3. (2013).

¹ See, http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_4_10_a

EIA’s projected rates of delivered price increases for coal and natural gas reflect a 1.0% real average annual increase for coal compared with a 2.0% average annual increase for natural gas for the period 2011-2040. EIA’s underlying natural gas supply forecast includes significant increases in gas from shale formations. Clearly, state or federal policies that encourage natural gas use at the expense of coal will lead to higher electric rates for consumers and businesses.

Increased dependence on natural gas also would expose Michigan electric consumers to greater electric price volatility. Areas of the country that are now dependent mainly on natural gas-based electricity experience much greater price volatility than traditional coal-dependent states. A recent assessment by the Federal Energy Regulatory Commission underscores this risk, based on electric market prices in regional power markets in January 2013:



Source: FERC Market Monitor (2013).

The highlighted trends for the Massachusetts and Indiana electricity hubs illustrate this difference in the risk of electric price volatility. In 2012, Indiana relied on coal for 81% of its electric generation, while Massachusetts depended on natural gas for 68% of its electric supplies. The impacts of cold weather and pipeline issues on New England gas supplies resulted in wholesale electric prices rising to \$245/MWh in late January 2013. Indiana hub prices remained nearly constant at some \$35/MWh throughout January 2013.

ACCCE defers comment on renewable energy supply, cost, and reliability issues at this time, but fully supports its members' views on these matters. We look forward to the opportunity to continue to participate in Michigan's energy policy discussion.

Sincerely,



Maureen A. Healey | Vice President of East Region

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AMERICAN COALITION FOR CLEAN COAL ELECTRICITY