



Michigan Municipal Electric Association

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November 1, 2013

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<i>Bay City</i>
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<i>Clinton</i>
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<i>Crystal Falls</i>
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<i>Detroit</i>
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<i>Eaton Rapids</i>
<i>Escanaba</i>
<i>Gladstone</i>
<i>Grand Haven</i>
<i>Harbor Springs</i>
<i>Hart</i>
<i>Hillsdale</i>
<i>Holland</i>
<i>L'Anse</i>
<i>Lansing</i>
<i>Lowell</i>
<i>Marquette</i>
<i>Marshall</i>
<i>Negaunee</i>
<i>Newberry</i>
<i>Niles</i>
<i>Norway</i>
<i>Paw Paw</i>
<i>Petoskey</i>
<i>Portland</i>
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<i>Sebewaing</i>
<i>South Haven</i>
<i>Stephenson</i>
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<i>Traverse City</i>
<i>Union City</i>
<i>Wakefield</i>
<i>Wyandotte</i>
<i>Zeeland</i>

John D. Quackenbush
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.

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*. On October 15, you released your **draft report on electric choice**, and gave the public an opportunity to respond to those comments by November 1, 2013.

The MMEA Board of Directors was given the courtesy of reviewing answers presented by a utility coalition made up 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, persuasive, 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 electric choice.

Electric Choice

In 2006¹ and 2007², MMEA and Protect Michigan³ jointly retained Public Sector Consultants⁴ 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.

Reliability and Deregulation

As referenced in our April 25th comments, MMEA believes that the answer to question number seven (#7) put forth by the utility coalition in your original request for comments, best represents the concerns of our members.

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-out 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.

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

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.

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.

MMEA would also join the utility coalition in pointing out recently published case studies by Public Sector Consultants regarding the potential negative impact of electric deregulation in Illinois, Texas, and New Jersey. The studies can be found on the Public Sector Consultants website:

<http://www.publicsectorconsultants.com/Publications/tabid/65/articleType/ArticleView/articleId/242/Analysis-of-Electric-Deregulation-Policies-in-Three-States.aspx>

Another example of immense importance to MMEA members is the uncertain future of the Presque Isle plant in the Upper Peninsula. Eighty-five percent of WE Energies' load, which financially supported this plant in the past, recently switched to an alternative electric supplier. At this point, the MISO has indicated that the plant is needed for reliability reasons. However, the costs to keep the plant in operation will likely be spread across a larger customer base in the MISO footprint. Many of these customers had not left for an alternative supplier, but will pay the costs for those that have. In a "true market" this plant would likely close, as the competition seems to have a lower price and the plant is no longer competitive.

However, the value of the plant from a geographic perspective is immeasurable when it comes to reliability. In fact, it is actually this plant that will still provide a large amount of the electric output to the retail customers that "on paper" have left WE Energies. This is just one close to home, real life example, as to why deregulation in the electric utility industry, where utilities have an obligation-to-serve, is problematic.

Local Control and Electric Choice

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.

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

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

Regards,



Jim Weeks
Executive Director

C: MMEA Members