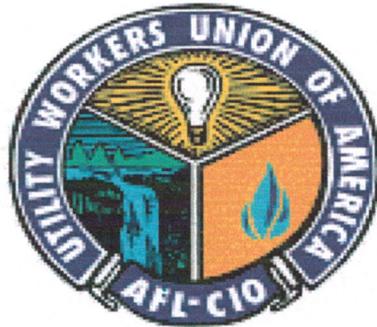


The Utility Workers Union of America, AFL-CIO

PUBLIC COMMENTS BY THE UTILITY WORKERS UNION OF AMERICA ON ELECTRIC CHOICE DRAFT REPORT

October 31, 2013
To the Michigan Public Service Commission



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COMMENTS BY THE UTILITY WORKERS UNION OF AMERICA, AFL-CIO

The Utility Workers Union of America represents 50,000 members in the electric, gas, water and nuclear industries across the United States, including 74 electric utilities. In Michigan, the Utility Workers Union of America (UWUA) represents 9,000 thousand workers at a variety of employers, including eleven (11) regulated, co-operative and municipal utilities. We appreciate the opportunity to provide comment to the MPSC Electric Choice Draft Report.

The data provided in the report accurately depicts the changes that have occurred in Michigan's electric utility structure through two major statutory changes: PA 141 of 2000, and PA 286 of 2008. We feel that, in addition to considering raw numbers regarding choice usage, generation costs and rate variations, policy makers must also consider issues and impacts to reliability, long-term viability and fairness between customer classes in their electric choice deliberations.

The report outlines three separate directions policy makers may choose:

1. Full Deregulation

The UWUA has members in several states that fully deregulated their electric utilities. While market forces often create short-term rate reductions, invariably these savings have been ephemeral and rates have quickly climbed (in some states to staggering levels). Moreover, most of the savings were garnered by large users who had the market power to take advantage of deregulation, while cost savings for small users were especially short-lived (if obtained at all). In addition, the uncertainty to incumbent utilities created by full deregulation has caused extensive long-term damage to utility infrastructure, staffing levels and reliability. Recognizing the shortcomings of deregulation, there has been a recent trend in other deregulated states to change their energy markets back to a full regulation. As a matter of fact, seven states; California, Virginia, Arkansas, New Mexico, Nevada, Arizona and Montana have either halted their de-regulation models or have re-regulated. The unpredictability of wholesale markets creates winners and losers. Michigan needs to have an energy policy which provides predictability in which all users benefit from.

2. Continuation of the current hybrid system (including possible choice cap modification)

The State of Michigan is one of only two states in the entire country to have a hybrid electric market structure. The current hybrid system attempts to combine the positive aspects of the free market with the reliability and safety of a regulated system. Before the advent of the 10% customer choice cap, the system was behaving much like fully deregulated systems in other states. After a brief period of lower electric rates (mainly due to a temporary statutory rate cut and freeze), prices began to increase rapidly. Meanwhile, incumbent utilities were struggling to obtain the capital necessary to properly maintain infrastructure and capacity needs.

PA 286 improved this situation by capping customer choice and giving incumbent utilities a guaranteed rate base they could depend upon. Although this stabilized the electric utility system in Michigan, it has failed to provide widespread efficiency and rate relief for the vast majority of Michigan customers. In reality, it has done little more than reduce rates for industrial and commercial customer classes at the expense of residential customers. Increasing the choice cap, as has been proposed by many large users, would further exacerbate this problem.

3. Full Regulation

Michigan's electric utility system was fully regulated for most of the 20th century, only shifting to a hybrid system in 2001. The reason for full regulation was to ensure accessibility for all users, eliminate market manipulation and to spur economic growth. Regulation created and put a value on public infrastructure. During this time customers had competitive rates with similar states while enjoying a reliable and fair system. Advantages between customer classes actually leaned toward residential customers, although this ended when rate skewing was eliminated in 2008.

While there are certainly drawbacks to a fully regulated electric utility system, it is the only option that provides long-term reliability, predictability for capital investment, and fairness between customer classes. The UWUA believes that these considerations are no less important, and perhaps more so, than rates and market choice.

Recommendation:

The UWUA urges the MPSC to strongly consider long-term stability, predictability and fairness when drafting its final recommendations concerning electric utility regulation and customer choice. We believe that at a minimum the customer choice cap should remain at 10%. We also believe that a move back to a fully regulated electric utility system should be strongly considered. The UWUA believes that only a fully regulated system can ensure effective service quality standards, accessibility, responsive customer service and consumer protections and will encourage investment and job growth,

Thank you for giving us the opportunity to provide comments on this matter.