Grand Rapids Area
Chamber of Commerce

Testimony by
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Grand Rapids Area Chamber of Commerce
House Energy & Technology Committee
December 20, 2007

Mr. Chair, members of the committee; my name is Jared Rodriguez, Vice President of Public Policy and Government Affairs for the Grand Rapids Area Chamber of Commerce. I am here today representing nearly 3,000 Chamber member businesses that provide over 150,000 jobs in West Michigan.

I would like to express my appreciation to you, Mr. Chair, and encourage you to continue in making sure that broad sweeping changes to critical issues, such as new electric generation, cost, and conservation are given ample time for research and debate. We have all seen the results of significant policy changes, this fall, being forced through the process...and in the holiday spirit, I can assure you, the gift wrapped tax increase that my members are about to open, is not the best way to start out the new year.

I would like to take this opportunity to express opposition to the package of bills, HBs 5520 – 5525, 5383 and 5384, designed to repeal the Customer Choice and Reliability Act, PA 141 of 2000 and mandate new regulations on job providers. The Chamber supported restructuring the electric utility industry with enactment of PA 141 and will continue to support unrestricted customer choice.

The passage of PA 141 was the result of several years of study, concluding that Michigan's energy costs were significantly higher than neighboring states and a competitive framework would yield lower energy costs.

Since enactment in 2000, customer choice has largely achieved its goal of lower energy costs through a competitive framework, as Michigan's electric energy costs are below the national average. According to an independent study, Michigan job providers have saved nearly $500 million in energy costs, all while some new electric generation has been built. Over 12 thousand megawatts (MW) of new electric generation projects were announced when PA 141 was signed into law, 4,000 of which was actually built.

Additional transmission capacity has been added and the state's major utilities have joined a regional transmission organization, the Midwest Independent Service Organization (MISO), which oversees and dispatches power throughout the region. PA 141 also provided for an immediate 5% rate cut and a three to five year rate freeze for all customers.

More recently, a 2005 Michigan Public Service Commission (MPSC) Capacity Needs Assessment and a 2006 MPSC 21st Century Energy Plan have both identified the need for new base load generation capacity in the state, beginning in 2015. We believe this finding has lead to the current debate of rolling back customer choice (PA 141). That being said and a point worthy of note, is that within the current structure there has been action taken by utilities to apply for federal government funds in anticipation of building a new nuclear plant and an announcement of plans for a 800 MW expansion. To those examples, we ask why the need to roll back choice? To do so, is suggesting that the capacity need, as identified by the MPSC, will not/can not be built in an open market.

In addition to preserving electric choice and building new base load capacity, there have been proposals to establish a mandatory state Renewable Portfolio Standard (RPS) and to implement an Energy Efficiency (EE) program. To be clear, our Chamber supports the use of renewable energy, as it has an important role in diversifying Michigan's energy portfolio, reducing our reliance on fossil fuels and foreign sources of oil and natural gas. However, we believe it should not be mandated. We also believe that energy efficiency is a valuable and cost effective means to reduce consumption, costs and the need for building new electric generation capacity, while preserving our natural resources.

I have included our Chamber's updated position statement on energy with my comments today. As you will see, we have formed a number of principles concerning Choice and Rate Structure, New Base Load Capacity, Renewables, Energy Efficiency Standards and Performance Standards. I would like to take a moment to highlight a few key points:

Electric Choice and Rate Structure

- Support customer choice, open access, reliability, fair dealing, aggregation, and the preservation of market flexibility;
- Support changes to deskew rates to properly allocate costs to customers;

New Base Load Capacity

- Support new electric base load generation pending a finding of necessity;
- Support a competitive bidding process to ensure the lowest cost;
- Support the consideration of renewable energy and energy efficiency in the determination of our state's future base load needs.

Renewables

- Support the establishment of renewable portfolio standard goals which are voluntary and supported by various economic development incentives;
- Oppose mandatory renewable portfolio standards that increase the cost of energy to our members and reduce the competitiveness of Michigan businesses;

Energy Efficiency Standards

- Support incentives for energy efficiency programs and promotion to reduce consumption, reducing the need for new generation;
- Support voluntary energy efficiency programs that reduce energy consumption and costs for business;

Performance Standards

- Support the decoupling of rewards and identify other ways to provide a return on investment for shareholders (e.g. energy efficiency and customer service);

The Grand Rapids Chamber supports efforts to improve the competitiveness of Michigan job providers by preserving electric choice and undertaking voluntary measures for meeting a state RPS. We need to continually take strategic actions to create an overall economic environment conducive to investment and economic development in our state. There are numerous factors a business considers when looking to locate or invest in a region – including taxes, infrastructure and education systems, and the regulatory environment.

Since 2000, the discrepancy in energy costs between Michigan and its neighboring states has narrowed, helping us keep our heads above water. Many choice users have stated that the enactment of PA 141 of 2000 has provided customer savings, stimulated the development of new generation capacity, increased transmission capacity, and increased reliability through participation in a regional transmission organization.

Building new base load generating capacity should not be limited to only public utilities. Several independent power developers have announced plans to build new generating plants in Michigan and should be allowed to participate in the market on a competitive bid basis.

We believe renewable energy and energy efficiency should also be considered in meeting Michigan's future power needs. The development of renewable sources of energy should be encouraged in Michigan through voluntary goals and objectives and supported by economic development incentives.

As you continue the energy debate, focus should remain on what is cost effective and reasonably achievable to maintain safe and reliable energy, while keeping Michigan's electric costs competitive.

Grand Rapids Area
Chamber of Commerce

Public Act 141
Customer Choice & Electric Reliability Act

Approved by the Executive Committee
December 10, 2007

RECOMMENDED BY: Environmental Affairs Committee

RECOMMENDATION:
The Grand Rapids Area Chamber of Commerce supports efforts to improve the competitiveness of Michigan business by preserving electric choice. Proposals for building new electric generating capacity should undergo a competitive bid process to ensure Michigan businesses are able to purchase power at the lowest cost. As regulators, legislators, and the Governor consider renewable energy and energy efficiency policies, the focus should remain on what is cost effective and reasonably achievable to maintain safe and reliable energy while keeping Michigan's electric costs competitive.

BACKGROUND:
The Customer Choice & Electric Reliability Act, PA 141 of 2000, was enacted to provide Michigan businesses and residents the opportunity to purchase electric energy from a supplier other than their host public utility. Special provisions apply to municipally-owned and co-operative utilities.

The passage of PA 141 was the result of several years of study, concluding that Michigan's energy costs were significantly higher than neighboring states and a competitive framework would yield lower energy costs. Michigan's electric energy costs are now below the national average according to 2006 data.

Since enactment in 2000, PA 141 has largely achieved its goal of lower energy costs through a competitive framework. Michigan businesses have saved nearly $500 million in energy costs. Some new electric generation has been built in the state since 2000. Over 12 thousand megawatts (MW) of new electric generation projects were announced when PA 141 was signed into law, 4,000 of which were actually built. Additional transmission capacity has been added and the state's major utilities have joined a regional transmission organization, the Midwest Independent Service Organization (MISO), which oversees and dispatches power throughout the region. PA 141 also provided for an immediate 5% rate cut and a three to five year rate freeze for all customers.

The passage of PA 141 was not without compromise. In return for opening up the market to electric choice, the major utilities were allowed to securitize the cost of certain assets on their balance sheets. The cost of securitization was financed through a fifteen year bond funded by a special securitization charge on all customers' bills through 2015. PA 141 also allowed major utilities to seek recovery of stranded costs to compensate the utilities for any loss in revenue necessary to cover certain fixed costs. The Michigan Public Service Commission (MPSC) awarded stranded costs in several instances between 2002 and 2007. The MPSC determined there would be no further award of stranded costs going forward.

A 2005 MPSC Capacity Needs Assessment and 2006 MPSC 21st Century Energy Plan have both identified the need for new base load generation capacity in the state beginning in 2015. DTE Energy

has applied to the federal government for funds in anticipation of building a new nuclear plant and Consumers Energy has announced plans for an 800 MW expansion at its Bay County facility.

Over the past year, the major utilities have initiated a concerted effort to repeal or significantly amend PA 141, arguing they are hampered in their ability to finance the cost of new base load capacity without changes to the law to stabilize the electric market and customer base.

In addition to preserving electric choice and building new base load capacity, there are proposals to establish a mandatory state Renewable Portfolio Standard (RPS) and implement an Energy Efficiency (EE) program.

A RPS would require each provider of electric energy, including alternative electric suppliers, to maintain a prescribed percentage of "renewable" energy in its sales to customers in Michigan. Some suggest incentives while others, including Governor Granholm, have suggested that mandates are necessary for renewable energy developers to obtain financing for projects and to stimulate economic development in alternative energy businesses.

A few states have combined RPS and EE proposals into a combined Sustainable Energy Portfolio Standard" (SEPS), setting a minimum floor for each RPS and EE, and a total combined standard that can be met by a combination of each.

POLICY RATIONALE:

The Chamber supports the use of renewable energy and its important role in diversifying Michigan's energy portfolio, reducing our reliance on fossil fuels and foreign sources of oil and natural gas. Energy efficiency is a valuable and cost effective means to reduce consumption, costs and the need for building new electric generation capacity while preserving natural resources.

The Grand Rapids Area Chamber of Commerce advocates the following principles:

Electric Choice and Rate Structure:

- Support customer choice, open access, reliability, fair dealing, aggregation, and the preservation of market flexibility;
- Support customer's ability to choose electric service providers and pay "unbundled" rates for the transmission of the electricity over the local transmission and distribution facilities to the point of use;
- Support electrical generation market structure based upon full and fair competition where the market sets the price for electricity;
- Support fair tariff restructuring for customers without creating barriers to participation in the electric choice program;
- Support changes to deskew rates to properly allocate costs to customers;
- Support the implementation of a per meter charge to assist low income customers;
- Oppose efforts to repeal or significantly amend PA 141 that effectively reduce or eliminate the ability of members to participate in the electric choice program.

New Base Load Capacity:

- Support new electric base load generation pending the finding of necessity;
- Support a competitive bidding process overseen by the MPSC which is sited and approved to ensure the lowest cost;
- Support the consideration of renewable energy and energy efficiency in the determination of our state's future base load needs.

Renewables:

- Support the establishment of renewable portfolio standard goals which are voluntary and supported by various economic development incentives;
- Oppose mandatory renewable portfolio standards that increase the cost of energy to our members and reduce the competitiveness of Michigan businesses;
- Oppose arbitrary and impractical mandates increasing the cost of energy and distorting markets;
- Support the inclusion of existing renewables in any proposed mandatory RPS;
- Support off-ramps or cost circuit breakers in any proposed mandatory RPS proposals to keep energy costs low and increase the competitiveness of Michigan businesses;
- Support in and out of state renewable energy credits in any proposed mandatory RPS;
- Support competitive bidding for renewable energy projects to reduce the cost and help independent energy developers compete against pubic utilities for renewable energy capacity.

Energy Efficiency Standards:

- Support incentives for energy efficiency programs and promotion to reduce consumption, reducing the need for new generation;
- Support voluntary energy efficiency programs that reduce energy consumption and costs for business;
- Oppose mandatory energy efficiency programs funded by non-by-passable surcharges on customer bills;
- Support "self directed" industry energy efficiency programs exempt from any surcharges;
- Support the acknowledgment of credits for existing energy efficiency plans.

Performance Standards:

- Support the decoupling of rewards and identify other ways to provide a return on investment for shareholders, ie: energy efficiency and customer service;
- Support the requirement of advance notice for return service.

SUPPORTING RATIONALE:

Competitive energy prices bring tremendous economic development benefits to our state. Since 2000, the discrepancy in energy costs between Michigan and its neighboring states has narrowed, making us more competitive. Many users have stated that the enactment of PA 141 of 2000 has provided customer savings, stimulated the development of new generation capacity, increased transmission capacity, and increased reliability through participation in a regional transmission organization. We should not return to a regulated monopoly system. Regulated utilities agreed to electric choice in 2000 and stated they would be ready to compete after Michigan citizens funded the securitization of over $2 billion of their assets and they were awarded hundreds of millions in stranded costs.

Building new base load generating capacity should not be limited to only public utilities. Several independent power developers have announced plans to build new generating plants in Michigan and should be allowed to participate in the market on a competitive bid basis. Renewable energy and energy efficiency should also be considered in meeting Michigan's future power needs.
The development of renewable sources of energy should be encouraged in Michigan through voluntary goals and objectives and supported by economic development incentives, not mandates. Consideration should also be given to the challenges of siting renewable energy facilities. Mandates that do not contain off-ramps or cost circuit breakers will result in higher energy costs for our members.
Renewable energy projects should be competitively bid to allow independent developers to effectively compete with utilities and provide lower costs to customers.

IMPLEMENTATION:
The Grand Rapids Area Chamber of Commerce will communicate our position with state legislators, the Executive Branch and the MPSC.