The Utility Workers Union of America, AFL-CIO

PUBLIC COMMENTS BY THE UTILITY WORKERS UNION OF AMERICA ON HOUSE BILLS 4298-4302

April 13, 2015
To the House Energy Committee

:kers Union of America, AFL-CIO
815 16th Street, N.W.
Washington, DC 20006

(202) 974-8200 (phone)
(202) 974-8201 (fax)

www.UWUA.net

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 Unities 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. Our members are on the job 24/7 operating and maintaining significant portions of Michigan's generation, distribution and transmission systems. As such, these hard working men and women are uniquely qualified to offer a highly informed perspective on the effects of a restructured electric utility system. We appreciate the opportunity to provide comments to this Committee.

Data provided in the report by the Michigan Public Service Commission 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 of incumbent utilities and fairness between customer classes in their electric choice deliberations. These are issues that should act as a compass in deliberating on whether or not to restructure.

There are three separate policy directions with regard to Michigan's energy structure:

1. **Full Deregulation**

The UWUA has members in several states that fully deregulated their electric utilities, including Ohio and Pennsylvania. While market forces often create short-term rate reductions, invariably these savings have been ephemeral and rates have quickly climbed (in some states, such as Pennsylvania, to staggering levels). Moreover, most of the savings have been garnered by large users who had the market power to take advantage of deregulation, while cost savings for small users have been 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. During the winter of 2013, many residential choice customers in Pennsylvania were facing crushing bills after switching from their traditional electric suppliers. Unlike mortgage rates, swings in variable-rate utility prices can be sudden and dramatic. This is a product that is consumed before the customer knows the cost. The job of the Public Service Commission is to set rates based on how much it costs a utility to make and distribute electricity and to keep those rates at a reasonable minimum. It is difficult to ascertain how an alternative supplier is going to provide electricity to non-traditional utility customers at a lower rate and still make a

profit. Michigan needs to have an energy policy which provides predictability from which all users benefit.

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

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, something that was exacerbated by the elimination of rate "skewing" in the 2008 changes. 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 provide a reliable system of electric generation and delivery. 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 policy makers to strongly consider long-term stability, predictability and fairness when considering electric utility regulation and customer choice. We believe that a move back to a fully regulated electric utility system should be strongly considered. Wholesale power prices have shown to be reactive to weather changes as well as generation constraints. Between 2013 and 2014, Illinois and Ohio saw a 2% to 6% increase in revenue per kilowatt-hour

while Pennsylvania, New York, Maryland, Delaware, New Jersey, Rhode Island, Massachusetts, New Hampshire, Maine and Connecticut all saw increases in revenue per kilowatt-hour of 6% to 30%; all deregulated states. Michigan on the other hand, saw revenue per kilowatt-hour decrease between 1% and 2%. Additionally, there is much uncertainty on both a national and state level with regard to generation capacity, uncertainty that is being exacerbated by pending emissions restrictions from the EPA and capacity restrictions stemming from regional transmission organizations. In Michigan, 12 units have been identified as being potentially affected by new EPA rules on existing power plants. What this means to wholesale and retail electricity rates is uncertain, and restructuring during a time when generation may be removed from the grid could have significant impacts on wholesale and retail costs. The UWUA believes that only a fully regulated system can ensure effective service quality standards, accessibility, responsive customer service and consumer protections that will encourage investment and job growth.

The UWUA will point out that not only is Michigan facing uncertainties from environmental regulations, it is also facing an ever increasing rate of retirement of its utility workforce. Safety, reliability and customer service standards are only maintained through an adequate and well trained workforce. The electric utility infrastructure in Michigan is not just wires, transformers, power plants and the like. The infrastructure includes the human infrastructure who maintain and operate those physical assets. It is critically important to have a thoughtful, systematic approach in planning and allocating both the physical as well as the human infrastructure. Utility worker jobs are high skilled highly trained jobs that require a thoughtful process for replacement and training. This can only be accomplished through a regulatory structure.

Returning Michigan to a fully regulated system will provide a systematic approach to workforce planning and execution. It will also provide consistency so that planning can be carried out in a way to benefit the State's economy. In turn, regulatory consistency will allow policy makers to identify a path forward so that stakeholders can make informed decisions.

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