House Energy Policy Committee
Chairman Aric Nesbitt
Testimony of Daniel M. Dasho
President & CEO
Cloverland Electric Cooperative

My name is Daniel M. Dasho.
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Cloverland Electric Cooperative
2916 W M-28
Dafter, Michigan 49724.

I am the President and Chief Executive Officer of Cloverland Electric Cooperative.

I began as Cloverland's General Manager and Executive Vice President in January 2008, responsible for Cloverland's electric operations and subsidiary Internet provider, Lighthouse.net.

In July of 2010, my title changed to President and CEO of Cloverland which had recently expanded from 18,000 meters to 42,000 meters with our acquisition of Edison Sault Electric. We are now the second largest Electric Cooperative in the state.

I served on the Board of Directors of ReliabilityFirst, a regional entity responsible for implementing the National Electric Reliability Council (NERC) standards from 2009 to 2012.

I am also on the Board of the Michigan Electric Cooperative Association (MECA).

Prior to joining Cloverland (February 2004 – January 2008), I was Director of Water and Light, City of Columbia, Missouri, responsible for operation of the city's electric, water, short line railroad and fiber optics utilities, serving a city of 100,000.

While in that position, I was also on the Board of Directors of the South East Reliability Council (SERC), a regional entity responsible for implementing the NERC standards and a member of its Compliance Committee, and on the Board of Directors of the Missouri Municipal Electric Utility Association.

I was on the stakeholders group at MISO.

I served as chair of the MISO Finance Subcommittee.

From 1998 – 2004, I was General Manager of Shawano (Wisconsin) Municipal Utilities and the Badger Power Marketing Authority. As General Manager of the Shawano Municipal Utilities, I was responsible for operation of the city's electric, water, wastewater and fiber optics utilities.

While in that position, I was also on the Board of Directors of the Municipal Electric Utilities of Wisconsin.

As General Manager of the Badger Power Marketing Authority, I was responsible for wholesale electric power for the cities of Clintonville and Shawano, Wisconsin.

From 1982 – 1998, I was on the Staff of the Public Service Commission of Wisconsin, where I ran the state stray voltage program and was senior engineer for the electric division, involved in Integrated Least Cost planning for the state of Wisonsin.

From 1980 – 1982, I was employed by Fairbanks Morse Engine Division, Beloit, Wisconsin.

I have a Bachelors Degree in Electrical Engineering from the University of Missouri (1979). I am a Registered Professional Engineer in the states of Missouri and Wisconsin.

Cloverland Electric Cooperative

Cloverland Electric Cooperative is a Michigan nonprofit corporation engaged in the generation, distribution and sale of electric energy to member customers in the counties of Chippewa, Delta, Luce, Mackinac and Schoolcraft in Michigan's Upper Peninsula, including the cities of Sault Ste. Marie, St. Ignace, Mackinac Island and Manistique. Cloverland has approximately 42,000 member customers, consisting of residential, farm residential, seasonal, commercial, outdoor lighting and large power accounts.

We are members of the Michigan Electric Cooperative Association (MECA). We believe that MECA is very important in getting the Cooperative message to our Legislators in Lansing and Washington D.C. It is very unusual for Cloverland to take a different position than MECA but in this case we must. Our Board of Directors, who represents our members, has adopted a Resolution supporting the approval of HB 4298. Our Board knows that our membership wants us to make every effort in eliminating a law that caused so many problems for Cloverland.

Choice

I am here today to speak to the issue of Choice and the devastating problems it has caused to Cloverland's members.

Choice Law Changed

As you know the Choice law was changed in 2008 to set a 10% cap on choice load a utility has to allow. In addition the Choice law allowed for the Iron Ore mines in the UP to take 100% of their load to Choice. The mines did this in 2013, following the end of a five year stranded cost payment period. Once the obligation to pay stranded costs ended the mines took their load to an AES. That started the avalanche of legal proceedings at the Federal Energy Regulatory Commission (FERC) in Washington, D.C.

When the mines left their electric retail supplier, WEPCO, they took 80% of WEPCO's UP load with them. WEPCO announced that it planned to close the Presque Isle Power Plant (PIPP) after two iron ore mines took advantage of the legislative exception to Michigan's customer choice cap and went with another electricity provider. Although Michigan law generally limits customer choice to 10% of any utility's load, Michigan's legislature enacted an exemption to the 10% limit specifically for the Mines.

The unintended consequences of this change are hurting CEC and the UP.

MISO Involvement

WEPCO no longer needed a power plant in the UP to serve its remaining load and moved to close the Presque Isle Power Plant (PIPP). The closing of the PIPP had to be approved by the Mid-Continent System Operator (MISO) which oversees the day to day operations of the electric grid from Manitoba to the Gulf Coast. MISO, recognizing the importance of the PIPP to the reliability of the UP, would not allow WEPCO to close the PIPP, which has a capacity of over 350 MW, requiring its operation for grid security. PIPP is the largest baseload resource in the UP. WEPCO explained to MISO that it would save $52 million by closing the plant and if MISO wanted it as a System Support Resource (SSR) unit, MISO was to pay WEPCO the $52 million to keep the plant running.

System Support Resource (SSR)

WEPCO was to receive System Support Resource (SSR) payments of $52 million for operations and an additional $64 million for upgrades required by the EPA. A total of $116 million over 15 months was the estimated cost. Payments would be needed until an alternative power source could be put in place allowing for the retirement of PIPP.

Originally, the SSR payments were to be billed to all utilities in the American Transmission Company (ATC) footprint who would share in PIPP's annual operating costs on a pro rata basis. ATC serves the UP of Michigan and a large part of Wisconsin. This meant that Michigan's UP utilities would pay 8 percent of the plant's operating costs and Wisconsin-based utilities would assume the other 92 percent. This was done under a FERC approved MISO tariff.

Even though the tariff had been previously approved by FERC and in effect for several years, the Wisconsin Public Service Commission filed a complaint with FERC, challenging the tariff's requirement that all utilities share costs on a pro rata basis.

On July 29, 2014, FERC issued an order invalidating the long-standing tariff for cost sharing. FERC found that the tariff was unjust and unreasonable. It required a new tariff based on "those who benefit should pay."

As a result of that order and others, electric utilities and their customers in the UP—including Cloverland—were to pay the bulk of the $97,000,000 in annual operating costs and environmental upgrades to keep PIPP open.

Needless to say Cloverland had to get involved at FERC to try and protect our members from these unjust costs. It is clear to Cloverland that we do not benefit from the operation of the PIPP and should not have to pay the SSR costs. However, MISO and FERC had a different opinion.

And the issue got worse for Cloverland, because WEPCo took actions to make Cloverland liable for an even greater share of the SSR payments than originally contemplated. Cloverland was included in a new MI UP load balancing authority ("LBA") to which the SSR obligations were assigned. Instead of an 8% share the UP was on the hook for 99% of the SSR costs as of December 1, 2014.

The real problem for Cloverland was in the cost allocation made by MISO. Cloverland doesn't benefit from the operation of the PIPP but we were getting about 25% of the SSR costs.

In October 2014, WEPCO publicly acknowledged the inequity of Cloverland having SSR obligations when Cloverland did not benefit from the grid stability provided by PIPP. Gratefully, on February 19th FERC agreed with Cloverland's arguments and moved the cost allocation to those who benefit.

This issue is still not resolved and further action is coming from FERC on the cost allocations. But Cloverland feels it has dodged a cost bullet.

The Mines have returned to bundled service from WEPCO starting on February 1st and WEPCO has proposed ending the SSR payments as of that date.

Cloverland's efforts were directed at the costs that were coming as a direct result o f the Michigan Choice law. The over $22,500,000 increase in MISO fees to Cloverland was a direct result of SSR payments required to keep the PIPP plant running. This required Cloverland to seek a power supply cost recovery factor of over 3.4 cents for 2015, a 25% increase for residential customers if we have to put it in place.

Such a dramatic increase in power supply costs would have been crippling to Cloverland and its members. When our membership learned of what was happening, they made great efforts to contact our elected officials in Washington and Lansing. Our members also contacted WEPCo's top management as well as the mines top management. We wanted to eliminate the threat by getting the mines to go back to WEPCO.

The message was clear, get the mines back to WEPCO. "End the Choice law that put Cloverland at risk." The unintended consequences of the law have been shown and the damage it could have done to Cloverland has been averted, we hope.

However, the SSR costs from February of 2014 to February of 2015 have yet to be allocated and paid. The UP is still required to pay these costs during this time.

I am assuming that the total SSR costs will be in the $100 million range. That will have to be paid by those who benefited from the PIPP operation. Cloverland may have avoided these costs since we don't benefit but these costs have to be paid. These costs are a direct result of the Choice law. The UP will be hit with these costs that, without the Choice law, would have been shared across the WEPCO area. The Choice law with the mining exemption should be repealed.

Choice at 10%

In addition to the Mines exemption, I have a major problem with Choice at 10%. We are the only Coop in Michigan that has a customer taking Choice. A total of 10% of our sales are taken by an AES. Our revenues that serve our members decline directly with each lost kWh of sales.

In this case, Cloverland lost about $400,000 in total sales monthly from June of 2014 through March of 2015. Those sales would have provided about $120,000 a month for operations. Now that money has to come from our other members.

Our large customer gets a benefit paid for by our remaining members. This is cost subsidization at its worst. From my prospective Choice is a cost shift from those taking advantage of the law to those that are left.

As a "not for profit" these lost revenues have to come from our membership. The lost revenue for us is significant. Our other members must make that up $120,000, a "Choice tax" if I may.

Now the customer on Choice, the Paper Mill, sadly has closed its doors. Our thoughts and prayers are with those Cloverland members in Manistique who must suffer through this long established community business shutting its doors.

However, that opens the door for another industrial to get in line for the 10% Choice option. So not only do we lose all the load of the Paper Mill, we could lose another 10% due to the Choice law. When that happens we will be down 20% in revenues and that will end up hurting my membership because it will require them to pay higher rates for the same service they get now.

Finally, the Choice law leads to a situation where the Choice customer doesn't contribute to the necessary long term generation/capacity planning that is needed for tomorrow's power supply. If a utility has lost 10% of its load to an AES, whose responsibility is it to serve that load in the long term?

Today a choice customer could have a two or three year contract. At the end of the contract the load comes back to the utility if market prices exceed the home utilities cost.

If all 10% comes back, the capacity margin for that utility declines. If a utility had an 18% reserve capacity and suddenly 10% of the Choice load comes back the reserve margin sinks to 8% well below the amount required for reliability.

Michigan needs a long term least cost plan that can serve the entire load. We need to have the entire load accounted for and paying its fair share of the long term costs.

During a time when there is extra capacity in the marketplace it doesn't seem to be a problem for those customers choosing to be served by an AES. However, with the new MATS EPA regulations our excess capacity will diminish in the next two years.

Who is planning on serving the loads in Michigan? The Choice law frustrates good least cost planning. The Choice law is a bad choice for Cloverland, our members and Michigan. I would advocate for the adoption of HB 4298.

Cloverland Electric Cooperative, Inc.

RESOLUTION AUTHORIZING CLOVERLAND ELECTRIC COOPERATIVE'S PRESIDENT AND CHIEF EXECUTIVE OFFICER, DAN DASHO, TO SUBMIT TESTIMONY TO THE HOUSE ENERGY COMMITTEE CALLING FOR THE REPEAL OF 2008 PA 286 AND SUPPORTING THE ADOPTION OF HB 4298.

WHEREAS, Cloverland Electric Cooperative is a 76-year old, member-owned, not-for-profit electric utility, serving approximately 42,000 services in the eastern Upper Peninsula; and

WHEREAS, due to provisions in 2008 PA 286, Cloverland Electric Cooperative has suffered undue financial and economic hardship having to defend its membership against $22 million in devastating System Support Resource (SSR) charges; and

WHEREAS, Cloverland Electric Cooperative lost approximately $2.8 million in revenue and 14 percent of its load when its largest industrial customer exercised its right to choose an Alternate Energy Supplier (AES) in 2014. The company announced to close its plant in March, 2015 reducing Cloverland's revenue by an additional $3.9 million; and

WHEREAS, Cloverland Electric Cooperative is at risk to lose an additional 10 percent of its load should a remaining industrial customer exercise its right to choose an AES; and

THEREFORE BE IT RESOLVED, Cloverland Electric Cooperative cannot and should not be asked to bear the financial burden and stranded costs caused by the provisions in 2008 PA 286; and

BE IT FURTHER RESOLVED, Cloverland Electric Cooperative encourages its businesses and residents to make their voices heard by contacting their elected representatives in the Upper Peninsula and in Lansing to repeal 2008 PA 286 and support HB 4298.

ADOPTED, this 7th day of April 2015

Robert Schallip

Robert Schallip, Chairperson

Richard Newland

Richard Newland, Secretary/Treasurer

Charles Litzner

Charles Litzner, Board Member

Gerald Nettleton

Gerald Nettleton, Board Member

John Sawruk

John Sawruk, Board Member

Dale Carlson

Dale Carlson, Vice Chairperson

Peter Legault

Peter Legault, Board Member

Virgil Monroe

Virgil Monroe, Board Member

Ronald Provo

Ronald Provo, Board Member