WestRock Company
Testimony in Opposition to Senate Bill 437
Utility Rates and Retail Choice
September 17, 2015

Chairman Nofs and Members of the Committee, thank you for the opportunity to testify today. My name is Irene Kowalczyk and I am the Director of Global Energy at the WestRock Company, a new company formed through a recent merger of RockTenn and MeadWestvaco corporations. I appreciate the opportunity to express our concerns over SB 437 as presented before this committee.

WestRock is a leading global manufacturer of corrugated and consumer packaging and recycling solutions. We have net sales of approximately $15 billion and 42,000 employees worldwide. In Michigan, we own and operate a 100% recycle paper mill in Battle Creek. This mill opened in 1948 and employs 150 people with an annual payroll that exceeds $17 million. Paper manufacturing is a very energy-intense industry and the Battle Creek Mill spent over $9 million on energy in 2014.

In addition to meeting the energy demand needs of 275 manufacturing plants and mills worldwide, I am also responsible for analyzing and addressing energy policy reforms that impact our businesses. WestRock opposes this legislation for three key reasons: First, the bill provisions relating to retail choice are discriminatory and harmful to competition. Second, the bill enables the unnecessary decoupling of utility revenues from sales. Third, the bill adopts an IRP process that is unlikely to produce new generation at least cost for consumers.

RETAIL CHOICE

Our mill in Battle Creek is fortunate to be on retail choice within the allowed 10% cap and thank you for proposing to preserve this opportunity for all who are currently enrolled in the program. We have used the savings derived from our participation to upgrade our facilities which makes our mill more competitive. It is our understanding that there are around 11,000 customers waiting in the queue to be served by an AES. Given the huge demand for this program we believe it should be expanded rather than saddled with restrictions that will result in its contraction and eventual elimination. The bill freezes the queue as of Dec 15, 2015 so that no new customers can ever get on the queue after that date. It imposes new stringent requirements on AES' that will make it difficult for many to continue to serve their customers which in turn will also reduce the number of AES' who will be able to compete for our business. Particularly problematic is the requirement that AES' cannot purchase more than 5% of the capacity needed to serve their customers from the wholesale MISO capacity market. If munis and coops have the flexibility to procure capacity needed to serve their customers from the MISO, then why shouldn't AES' be afforded that same opportunity. AES' who cannot fulfill their resource requirements with physical assets located in Michigan or with prepaid PPAs for a minimum of three years are at risk of having their licenses revoked. Fewer AES' in the market will result in less competition and higher prices – outcomes that are undesirable.

The existing terms and conditions for retail choice should be maintained as there is no need to fix a program that is working well and not broken.

Provisions in the proposed bill that allow the utility to dictate costs and terms of service for returning customers should be revised. If the utility can demonstrate that existing utility customers will incur costs associated with returning customers then the returning customer should assume those properly allocated costs. If that is done then there is no need at all for a three year notice to return to utility service. Consider whether a utility would ask a new potential customer with a large load who wants to locate in Michigan to wait three years to get utility service. It is unlikely that the utility would treat a new customer this way given how important economic development is to the state of Michigan. So then why should a returning customer be discriminated against as compared to a new customer? WestRock recently completed a review of the return to service provisions for utilities offering retail choice in OH, IL, DC, TX and CA and found that all the utility tariffs or Commission rules we reviewed allow customers to return with minimum notice. For example, AEP Ohio requires 12 calendar days notice before next scheduled meter read to switch back and then requires a 12 month minimum stay. Furthermore, returning customers should have an opportunity to withdraw their notice after reviewing the cost to return to utility service. No-one should be asked to commit to buy something without knowing its cost. Yet the bill does precisely that in that the written notice is irrevocable, the costs are determined after the notice is provided and the customer cannot rescind their notice. The inability to go back to retail choice after having returned to the utility service is another unnecessary restriction. A minimum stay provision for returning customers may be a better approach. Lastly, the requirement to file commercially sensitive retail choice contracts with MPSC, even if under seal, should be removed as those contracts can easily end up in the public domain causing irreparable damage to retail choice customers.

REVENUE DECOUPLING

The bill allows for revenue decoupling for electric and gas utilities and requires the MPSC to give deference to the utilities' proposed decoupling plans. WestRock opposes revenue decoupling mechanisms because they result in utilities becoming less efficient and less customer focused over time. This happens because the utility obtains the same level of revenue from the customer regardless of the customer's usage. The current regulatory process which allows utilities to file general rate cases every 12 months should be sufficient to match revenues with expenses so decoupling is not necessary. Should revenue decoupling be implemented anyway, then a "going in" general rate case should be required so that current level of revenues and expenses are being used. The bill should be revised to allow the MPSC to determine the merits of any utility filing instead of requiring deference to utility proposals. Lastly, if revenue decoupling is instituted industrial class customers should be exempted from such mechanisms. This way industrials on utility service will obtain bill savings from their investments in energy efficiency projects.

IRP PROCESS

The bill proposes to substitute an Integrated Resource Plan (IRP) process for approval of generation additions for the Certificate of Need (CON) process in use today. WestRock believes that if the discipline that the CON process provides is eliminated, then it should be replaced with a "market test" within the IRP process to ensure that consumers are paying no more for new generation than is necessary. This can be accomplished by requiring competitive bidding for all new generation resources overseen by either an independent 3rd party or the MPSC Staff. The bill only requires utilities to engage in an RFP process for the first IRP. This is insufficient to ensure that the least cost solution is being implemented.

Mr. Chairman, WestRock's position is not in opposition to comprehensive energy reform or establishing additional capacity safeguards for ratepayers. We support market-based objectives that promote stable energy supplies and prices, including alternative energy choice programs. WestRock supports the testimony of ABATE, the American Forest & Paper Association and Wolverine Power Marketing Cooperative. Thank you for this opportunity to present our views and I am happy to answer any questions.

Review of Notice Provisions for Return to Utility Service on Select Systems

Provision	State	Source	Notes	Link
Return to Tariff	Ohio	AEP Ohio	Notification required at least 12 calendar days before next scheduled meter read. Must stay on Standard Offer service for 12 months.	https://www.aepohio.com/global/utilities/lib/docs/ratesandtariffs/Ohio/2015-08-28_AEP_OAD_Tariff.pdf
Return to Tariff	Illinois	ComEd	12 month minimum stay upon return to bundled service	https://www.comed.com/documents/customer-service/rates-pricing/retail-electricity-metering/res_ch_10_switching_rules.pdf?FileTracked=true
Return to Tariff	DC	PEPCO	Customer may return to standard offer without restriction	http://www.dcpsc.org/Electric/Electric_FAQ.asp#A7
Return to Tariff	Texas	PUC	Customer may return to standard offer service on month to month basis	https://www.puc.texas.gov/consumer/facts/factsheets/elecfacts/Rightselectric.pdf
Return to Tariff	California	PG&E	18 month minimum stay upon return to bundled service	http://www.pge.com/tariffs/tm2/pdf/ELEC_RULES_22_1.pdf