Michigan Manufacturers Association

Testimony on SB 437(S-2) (Nofs) and SB 438(S-2) (Proos)

Mr. Chair and Committee Members,

Thank you for the opportunity to speak today, and thank you for all of the discussions we have had over the past several months, and even years. The energy issue is very complex and I think we can all agree that, despite everyone's interest in finding solutions, it is not easy to resolve all of the issues in the 125 pages of details in your bill, and the 84 pages in Sen. Proos' bill. So, it is with great respect for you, Sen. Proos, and the members of this committee, that we express our concerns today. And, let me recognized the hard work your staff, particularly, Greg Moore, Dan Dundas, and Rebecca O'Connell.

Joining me today are representatives from three companies that currently participate in the choice market. They believe the constraints on choice would be detrimental to their competitiveness going forward. I will introduce them briefly now, but will let them tell their own stories after I make some comments.

With me today are: Rod Williamson, Dow Corning; Chris Masciantonio, US Steel; and Bryan Harrison, Amway.

Our stated goal from the beginning of the process has been to preserve 10% choice, while maintaining reliability in the system. As you know, we have members both in the choice system and in the regulated system. We have members that have been interested in expanding the level of choice beyond 10% of the market and we have had members interested in eliminating the choice option and returning to a fully regulated model. However, we remain supportive of maintaining the of the 10% cap on choice.

Mr. Chairman, we appreciate your shared goals of keeping the 10% choice market open, while maintaining reliability. However, despite our collective effort to date, we do not believe the proposed drafts meet our shared goals. We believe the proposed bills structurally constrain choice in ways that are not necessary to achieve reliability in the system. To be clear, we remain willing to continue to work toward solutions.

Let me outline some the key issues related to choice to better articulate our concerns:

Resource Adequacy:

The solution to resource adequacy is a combination of longer term forecasting and three-year forward auctions that will create longer term capacity price signals in Michigan. We have discussed three-year proof of capacity mechanisms to help ensure adequate capacity in the choice market. In addition, we recognize and appreciate that the bill contains a provision for a three-year auction, created by MISO, but the transition to access that auction is complicated.

First, we are opposed to being denied access to the current one-year planning reserve auction, before MISO creates a three year forward planning auction. The lack of transparency in a bilateral negotiation hands significant market leverage to utilities. In our discussions with FERC, it was clear they believed auctions were the best way to guard against market manipulation.

Second, the language regarding access conflicts with the idea of direct access for two reasons: First, a contested case is required to determine if the market-based competitive price is "fairly and accurately valued", this hinders direct access the auction. If MISO creates the auction, load serving entities should have immediate and direct access to that auction. And second, the language requires the auction to provide two years of the pro-rata share of the local clearing requirement and the planning reserve margin, but MISO indicated their three-year auction will only meet the LCR and the planning reserve margin will only be met for one year in that third year. The conflict in requirements prevents access to the three year forward auction.

We have also been willing to discuss thresholds for the PSC to impose a larger pro-rata share, if they forecast a risk to reliability. However, after our members reviewed the provision contained in the bill, for a revolving 105% threshold to impose a 100% pro-rata share for 12 years, they concluded the provision would effectively end the choice market.

We are willing to continue to discuss options that meet our shared goals, but the resource adequacy provisions result in severely restricted choice viability. We just can't support the provisions discussed so far.

Capacity Charge or Choice Exit Fee

We have been willing to entertain the idea of a "capacity charge" or "exit fee" as customers leave the regulated system to ensure their departure doesn't increase costs on the other regulated customers. However, the fee in the bill is so high and so long that, as a practical matter, this will bar companies from making the choice. In addition, the language does not account for netting of costs.

On netting, if an equal amount of "load" returns to the regulated system as leaves the system, the cost to regulated customers is zero, and the capacity charge or exit fee ought to be zero. As long as the choice system is fully subscribed, and there are customers in the queue, there should be no fee. However, the bill does not account for this balance.

Having said that, we are willing to entertain some exit fee for some period of time, to guard against any cost shifts and as a deterrent to jumping in and out of choice. However, the basis of the exit fee proposed by the utilities is extremely high, such that those going to choice would essentially remain regulated customers for another 10 years before they would be free to participated in the market for both the "capacity" and "energy."

The basis of the fee should be the cost of new entry (CONE). This reflects the kind of costs for new incremental demand on the system. Going forward, it is reasonable to anticipate new supply will be compared to a gas-fired plant, and not the traditional coal-based generation.

We also believe the fee should be shorter than 10 years to help keep the choice market viable.

The Queue

We raised the concern about the need to keep the queue open. We recognize and appreciate that the queue remains open in this bill.

Integrated Resource Plan

We have been advocates of an Integrated Resource Plan (IRP), which is a transparent planning process to evaluate and compare the cost of generation options available to utilities, before they spend the money on new generation. The process is intended to compare the relative costs and benefits of coal, natural gas, wind, solar, power purchase agreements or energy efficiency to avoid new construction.

- **Competitive Bidding** – To ensure the IRP process meets the "most reasonable and prudent means of meeting energy and capacity needs", the process needs to allow full consideration of alternative proposals. The current language seems to limit the PSC review to only the utility criteria, which might prevent the PSC's consideration of alternatives, when the alternative may be different from the utilities' proposed criteria, though may be the "most reasonable and prudent" solution.

Decoupling for Energy Efficiency

Decoupling for energy efficiency is a mechanism to allow recovery of lost energy sales due to the implementation of mandated energy efficiency programs. Decoupling should be limited to energy waste reduction costs only. It should also be limited to the amount of energy efficiency approved in the IRP.

Cost of Service Rates

We want to acknowledge the bill does protect the gains made on cost or service rates, though we suggest a technical fix is needed to accurately reflect the formula as 75-0-25, not just "75-25."

Conclusion

In conclusion, as you have said, Mr. Chair, we are moving into a new era. Coal plants have provided secure power for a very long time in Michigan, but the future will be driven by natural gas, renewables and energy waste reduction. We believe the choice market is an important part of making the system more efficient and more cost competitive. We continue to believe there is a potential path to agreement, however, we do not believe the proposed drafts meet our shared goals of keeping choice viable and sustainable.

We suggest maintaining current market forces, until a three year forward market is created. Clear access to that three-year forward auction will provide forward price signals to spur new capacity, help utilities get a better recovery for any excess capacity, and provide the PSC with an additional reliability planning tool.

In addition, we are willing to continue to discuss an appropriate safety net that grants authority to the PSC to increase resource adequacy requirements on load serving entities for some period of time to ensure reliability, and that maintains market dynamics going forward.

Thank you for the opportunity to share our thoughts.