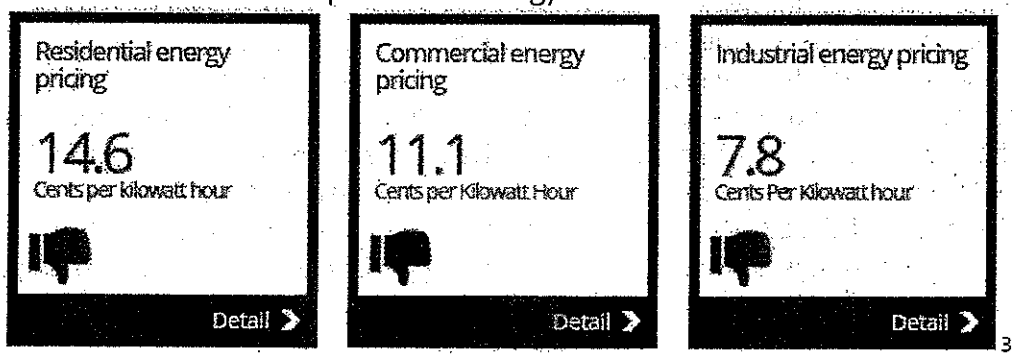
MICHIGAN CHEMISTRY COUNCIL

COMMENTS ON SB 437 & SB 438: FOCUS ON ENERGY COMPETITIVENESS

Background:

The Michigan Chemistry Council is the voice for Michigan's chemical industry, our state's third-largest manufacturing sector. Our companies support nearly 120,000 Michigan jobs and generate $127 million in state and local taxes. 96% of all manufactured goods are directly touched by the business of chemistry, making our industry essential to every facet of Michigan's economy.[1]

Energy is the most significant issue of concern for the chemical industry, which depends greatly upon affordable energy sources for its feedstocks and manufacturing processes. Unfortunately, our members remain significantly disadvantaged by the high cost of energy in Michigan. In 2014, Michigan's average industrial retail rates ranked the *highest among the six Midwest states*, and were the *third highest among the 10 largest states nationwide*.[2] As noted below by Governor Snyder's own dashboard, our state remains uncompetitive on energy rates.



[3]

Michigan's current energy policies are a major barrier to continued growth by our industry, which competes not only nationally, but internationally for new investments and job growth.

MCC Supports Competitive Energy Costs

The MCC supports policies that will advance energy competitiveness and reduce the cost of doing business in Michigan. In our 2015 Energy Policy Agenda, we detail the importance of both competitive market forces and effective regulatory oversight in controlling energy rates.

It is evident that regional transmission authorities like MISO can help deliver a reliable electric supply without our state having to bear all these costs alone. Fortunately, the most recent reports from MISO and the MPSC confirm that Michigan continues to enjoy surplus capacity available for our needs.[4] Therefore, we urge the Legislature to take the time to get this issue right, with careful consideration for the impact of long-term policies upon energy rates and job growth.

---

[1] American Chemistry Council, Michigan state statistics, 2014
[2] Michigan Public Service Commission, "Status of Electric Competition in Michigan," January 29, 2015
[3] Open Michigan, "Energy & Environment Dashboard"
[4] Michigan Public Service Commission, Order in U-17751, July 23, 2015

retail competition model, companies have the ability to enter into long-term agreements for the purchase of renewable energy, and many do so at cost-competitive rates.

- Comments: The MCC supports expanding opportunities for customers to access renewable energy through retail competition, enabling direct access from independent generation sources, and enabling increased self-generation. These changes could help Michigan affordably increase its use of clean energy without new mandates or subsidies.

3. **Electric Energy Optimization Program** (section 71, pg 26-29)
   - Proposal: The bill would eliminate the current electric energy optimization program by 2019, and would instead include energy efficiency in the proposed IRP process.
   - MCC Position: The MCC is a strong supporter of energy efficiency. Michigan's chemical manufacturers not only produce innovative energy-saving products for worldwide markets, but have long been leaders in improving industrial energy efficiency and reducing their own consumption. Many mandatory programs, however, provide more value to small commercial or residential customers than to industrial users.
   - Comments: The MCC believes that the current energy optimization program has successfully promoted energy efficiency gains in our state. We also agree with Gov. Snyder that reducing energy waste is one of the most cost-effective ways to meet our future energy demands. If the Legislature chooses to instead include energy efficiency in the IRP process, we encourage the careful adoption of strong targets to ensure that efficiency is given equal consideration to supply-side generation resources.
     However, while the current energy optimization program remains in effect, we do not support the continuation of the expensive and unnecessary utility incentive bonuses. Utilities already have the ability to recover their costs through the normal rate case process, and any savings resulting from efficiency should accrue to the benefit of ratepayers.

4. **Natural Gas Energy Optimization Program** (sections 72-93, pg 29-60)
   - Proposal: The bill would maintain the current natural gas energy optimization program, but would increase the utility incentive bonuses, and also allow utilities to capitalize and earn an additional rate of return on all program costs.
   - MCC Position: Chemical manufacturers are some of our state's largest natural gas consumers, and are already motivated and proficient at reducing their own use.
   - Comments: The MCC believes that industrial users should be allowed to opt out of this mandatory utility-driven energy optimization program. The MCC also supports the addition of new cost off-ramps if the MPSC determines that the requirements cannot be reasonably and cost-effectively achieved. Likewise, the MCC supports the use of "per-meter" rather than skewed volumetric charges for energy optimization. These changes will allow the programs to focus its efforts on those whom can benefit most.
     However, the MCC *does not* support the proposed increase from 15% to 20% in the utility incentive bonuses, which would now not be capped or tied to the actual savings achieved. These incentives are unnecessary and costly for ratepayers, who should reap the rewards from their own energy reductions.

money and promote environmental sustainability.[6] We believe that Michigan can make better use of these technologies, and that the proposed IRP process should include a review of potential cogeneration resources.

[6] Energy Information Administration (EIA): "Combined heat and power technology fills an important energy niche," October 4, 2012

MICHIGAN CHEMISTRY COUNCIL

Senate Energy and Technology Committee

September 17th, 2015

MICHIGAN CHEMISTRY COUNCIL

The chemical industry in Michigan:

- Third-largest manufacturing sector in MI
- Supports nearly 120,000 Michigan jobs
- Generates $127 million in state & local taxes
- 96% of all manufactured goods are directly touched by the business of chemistry

Chemical industry and energy

- Energy sources used for both feedstocks and manufacturing processes
- Very energy-intensive by nature
- Chemistry plays a critical role in helping everyone else produce, conserve, & store energy

The long-term view on rate (un)competitiveness

Source, http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls, Current and Historical Monthly Retail Sales, Revenues, and Average Retail Price by State and By Sector (Form EIA-826). *2014 data is through August.

In 2014, Michigan's average industrial retail rates ranked the **highest** among the six Midwest states, and were the **third highest** among the 10 largest states nationwide.

- MPSC, "Status of Electric Competition in Michigan," January 29, 2015

Energy Cost Competitiveness = Job Growth

- High energy costs in Michigan mean less job creation
- Importance of good state energy policy
- Competitive rates need to be a clear policy goal
- Yes, reliability is important
- But we must understand what is really the problem, and what would the proposed solutions cost?

SB 437 and SB 438 Would Hurt Competitiveness

1. Would restrict marketplace competition
   - Would impose numerous unnecessary and discriminatory mandates on electric choice customers and alternative electric suppliers only
   - Wouldn't allow customers flexibility to reasonably respond to market changes
   - New mandates would drive up costs for all ratepayers

2. Would empower utilities instead of ratepayers and regulatory bodies
   - IRP process wouldn't allow enough external participation when evaluating new investments
   - Many other provisions (revenue decoupling, performance-based regulation, utility code of conduct, energy optimization, net metering, etc.) have troublesome language favoring utilities at the expense of customers
   - Many complicated provisions written into statute, rather than delegated to MPSC

Pro-Ratepayer Agenda

1. Preserve electric choice
   - Allows customers to control their own energy future
   - Controls costs and improves utility performance
2. Competitive bidding process to evaluate and reward best energy resources
   - Allows all energy resources (supply and demand) to be evaluated according to objective criteria
   - It puts the customers' interests first, while still allowing for fair rate of return for utilities

Pro-Ratepayer Agenda (cont'd)

3. Focus on energy efficiency
   - Most cost-effective and sustainable resource
   - Our industry helps enable these solutions
4. Encourage distributed generation and cogeneration
   - Highly efficient and valuable to remote parts of grid
5. Empower regulators and ratepayers
   - Incentives should flow to customers, not monopolies
   - MPSC cases allow for transparent and deliberate consideration of complex problems

The problem with "incentives"

- "Utilities say they need "incentives." But to incentivize a monopolist is to act oxymoronically. ***By definition, incentives are inducements to act when there is discretion not to act. Having received the privilege to serve, the monopoly has no discretion not to act.*** If it had that discretion, it could refuse to act until it got what it wanted."
- "That is not how regulation works. Busy intersections don't offer cars money for not stopping; the red light orders them to stop. And in utility regulation, we set standards and require compliance. We don't (or shouldn't) pay 'incentives.' ***We define an obligation and we compensate for that obligation, based on reasonable cost and reasonable profit.*** "
  - *"Reforming the Energy Vision": Did New York Get Everything Right? – Scott Hempling, utility regulatory attorney and professor*

"Michigan control" and reliability

- We understand the desire to control "Michigan's Energy Future", and we support developing our own state plan for the EPA's new Clean Power Plan
- However, don't forget that reliability is now regionally managed – benefits of larger footprint of generation and transmission
- We support Michigan jobs, but trying to mandate a Michigan-only solution is not free-market, competitive, or sustainable

Encouragements

- Careful consideration – what is really necessary and when?
- Focus on IRP and planning process – coordination of state energy policy with Clean Power Plan SIP
- Weigh the costs to ratepayers of any proposed "solution"
- Put customers and jobs first

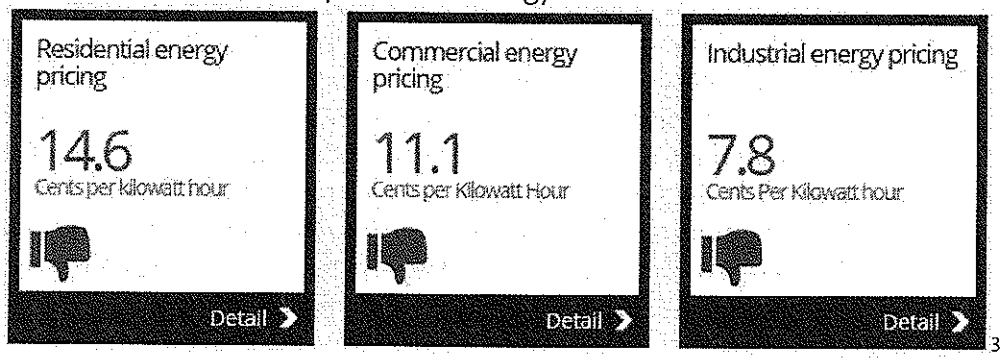
MICHIGAN CHEMISTRY COUNCIL

COMMENTS ON SB 437 & SB 438: FOCUS ON ENERGY COMPETITIVENESS

Background:

The Michigan Chemistry Council is the voice for Michigan's chemical industry, our state's third-largest manufacturing sector. Our companies support nearly 120,000 Michigan jobs and generate $127 million in state and local taxes. 96% of all manufactured goods are directly touched by the business of chemistry, making our industry essential to every facet of Michigan's economy.[1]

Energy is the most significant issue of concern for the chemical industry, which depends greatly upon affordable energy sources for its feedstocks and manufacturing processes. Unfortunately, our members remain significantly disadvantaged by the high cost of energy in Michigan. In 2014, Michigan's average industrial retail rates ranked the *highest among the six Midwest states*, and were the *third highest among the 10 largest states nationwide.*[2] As noted below by Governor Snyder's own dashboard, our state remains uncompetitive on energy rates.



[3]

Michigan's current energy policies are a major barrier to continued growth by our industry, which competes not only nationally, but internationally for new investments and job growth.

MCC Supports Competitive Energy Costs

The MCC supports policies that will advance energy competitiveness and reduce the cost of doing business in Michigan. In our 2015 Energy Policy Agenda, we detail the importance of both competitive market forces and effective regulatory oversight in controlling energy rates.

It is evident that regional transmission authorities like MISO can help deliver a reliable electric supply without our state having to bear all these costs alone. Fortunately, the most recent reports from MISO and the MPSC confirm that Michigan continues to enjoy surplus capacity available for our needs.[4] Therefore, we urge the Legislature to take the time to get this issue right, with careful consideration for the impact of long-term policies upon energy rates and job growth.

---

[1] American Chemistry Council, Michigan state statistics, 2014

[2] Michigan Public Service Commission, "Status of Electric Competition in Michigan," January 29, 2015

[3] Open Michigan, "Energy & Environment Dashboard"

[4] Michigan Public Service Commission, Order in U-17751, July 23, 2015

We appreciate the opportunity to offer our comments below on SB 437 and SB 438.

SB 437

1. **Ratemaking and Revenue Decoupling** (section 6a, pg 3-11)
   - Proposal: The bill would eliminate the ability of utilities to self-implement rate cases after six months, and would also shorten the time required for MPSC action from 12 to 10 months. It would also explicitly authorize the MPSC to approve a revenue decoupling mechanism for natural gas or electric utilities, and would direct the MPSC to "give deference to the proposed revenue decoupling mechanism submitted by the utility."
   - MCC Position: The MCC believes that effective regulatory oversight must be a necessary part of cost control, and that the MPSC must be empowered to protect ratepayers' interests.
   - Comments: The MCC supports the elimination of the six month rate self-implementation provision, but is concerned that a ten month requirement for final action may not allow for sufficient consideration of major rate cases.
     In addition, the MCC opposes the proposal for broad revenue decoupling authority. Revenue decoupling is an extremely blunt arrangement that promotes utility revenue assurance regardless of demand. A separate revenue decoupling mechanism is unnecessary, as utilities are already allowed to recover their losses through the existing rate case process. Furthermore, broad revenue decoupling goes well beyond only those losses attributable to energy efficiency. It also eliminates the financial incentive for utilities to improve their own performance and to encourage economic development efforts within their service areas. Instead, a more effective means of encouraging energy efficiency would be to induce those who actually use energy – ratepayers – through better price signals. Ultimately, if the Legislature chooses to authorize revenue decoupling, it should develop a mechanism that is narrowly targeted for energy efficiency, and it must empower the MPSC to consider the interests of both utilities *and ratepayers* in so doing.

2. **Integrated Resource Plan** (section 6s, pg 25-41)
   - Proposal: The bill would replace the current certificate of need process with an integrated resource plan (IRP) process directed by the MPSC. First, the MPSC would identify those factors relevant to future energy needs and resources, and would publish proposed modeling scenarios and assumptions. A utility would then file an IRP every three years to demonstrate how it plans to meet future energy needs while minimizing net present value of capital and production costs. The MPSC would evaluate the IRP and any alternative proposals in a contested case proceeding, and may then approve, suggest recommended changes, or deny the IRP. All costs for investments included in an IRP would then be deemed reasonable and prudent for revenue recovery.
   - MCC Position: The MCC has long supported the adoption of a transparent IRP process that provides for a thorough and holistic analysis of our state's energy needs, and allows for input from a range of stakeholders. The MCC also strongly supports the adoption of a competitive bidding process for new capacity resources to ensure the best return on investment for ratepayers.
   - Comments: The MCC supports the proposal for an IRP process, but believes that this process must be even more comprehensive. For example, as currently written, it is unclear whether the IRP process would be specific to each electric utility, or would include all