



March 24, 2014

Dear Chairman Nesbitt and Members of the House Energy & Technology Committee:

Thank you for the opportunity to share our views on HB 5184. We appreciate the opportunity to discuss energy options that will ensure competitiveness for Michigan's manufacturing sector and will result in sustainable long term solutions.

The Michigan Manufacturers Association represents over 2,400 members in the largest sector of the Michigan economy which employs over 560,000 people. While we represent some of the largest companies in Michigan, 85% of our members employ less than 100 employees. Manufacturing has been driving Michigan's economic recovery, creating over 100,000 jobs since January of 2010. Over that same period, manufacturing employment in Michigan has grown by 21.6%, while total job growth in Michigan has grown by 7.4%. In addition, Michigan has lead every other state in the nation in manufacturing job growth over the last four years, besting states like Texas (+68,100), Indiana (+62,800), Ohio (+54,000), Wisconsin (+41,900), and Illinois (+21,600).

Manufacturing is an inherently energy dependent activity. Transforming raw materials into useable products often involves moving, lifting, mixing, crushing, stamping, bending, and often heating materials. All of these activities require a significant input of energy, particularly during heating processes. Some industrial activities are more energy intensive than others, but in general, energy is a critical component in the production of manufactured goods. That means energy is a significant factor in Michigan manufacturers' ability to compete successfully with companies in other states and nations.

MMA's basis for evaluating energy policy is rooted in the need to address both price and reliability in the long term for Michigan's manufacturing sector. Michigan's current rates have been rising, and we are increasingly concerned about the impact on our members' ability to compete on the basis of price with other states. According to the US Energy Information Administration, Michigan's industrial rates are the highest in the East North Central region, which includes Illinois, Wisconsin, Indiana, and Ohio, and about 11% higher than the national average for industrial customers.¹ Policy considerations going forward must address Michigan's current rates and ensure competitive rates in the long term for the job creating manufacturing sector.

¹ US Energy Information Administration, US Department of Energy
(http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_b)
(<http://www.eia.gov/state/print.cfm?sid=mi>)

It is useful to review Michigan's history on energy policy. In 2000, many states across the country were moving toward deregulation as a way to lower electric rates. Michigan followed the national trend and MMA supported the hybrid model adopted in PA 141 of 2000. By 2006, it had become clear that the promises of competition were not coming true in Michigan. The market had not consistently delivered on lower prices and rates were becoming increasingly unpredictable. Despite being given the opportunity for more than half a decade, only about 3% of the rate base had chosen to exercise choice at that time. Also, federal environmental policy was increasingly threatening retirement of substantial portions of Michigan's coal based generation fleet, which was and still is one of the oldest in the nation. However, Michigan's deregulated hybrid system did not provide a system that would support the construction of new generation to ensure adequate generation capacity for increased manufacturing demand, ultimately risking reliability for Michigan manufacturers.

In 2008, MMA was supportive of the energy package for three primary reasons. First, the legislation addressed the need to ensure long term reliability for Michigan manufacturers by providing a system that allowed opportunities for replacement of Michigan's aging base-load generation capacity. Second, was the opportunity to fundamentally change the electric rate making policy to a "cost of service" basis to ensure industrial rates reflected only those costs directly attributable to industrial loads. Third, was the opportunity to preserve a measure of choice for those customers that wanted to move to choice. With only 3% of the customer base choosing to take power from alternative electric suppliers at that time, we supported the 10% cap, which was more than 3 times as large as the number of customers taking choice. With the support of our membership, we supported the move back to a regulated system, while preserving a measure of choice

A review of rates nationally has shown that deregulation does not guarantee competitive rates in the long term. Other states that have moved to deregulation have not generally changed the game in terms of relative competitiveness with other states. Over time, the rate models tend to find a similar relative balance compared to other states, whether the other states are regulated or deregulated, as when they started. In testimony before this committee last year, Ken Rose, a Senior Fellow with the Institute of Public Utilities at Michigan State University, presented a graph showing the weighted annual averages for rates in all states, regulated states and retail open access states that ended price caps for residential customers between 1990 and 2011². The graph shows very little change in relative rates between regulated and non-regulated states over that period. It would appear that the longer term price trend for deregulated states has not produced improved pricing compared to regulated states.

² Ken Rose - Before The Michigan House Energy And Technology Committee March 12, 2013

The question is how should Michigan's energy policy move forward to sustainably meet both price and reliability goals in the future?

Looking at the energy landscape today, compared to 2008, some facts have changed, but many of the same dynamics remain in place. The Great Recession reduced energy demand significantly, temporarily creating an unexpected generation surplus. The ongoing fracking of natural gas from shale has increased natural gas supplies and pushed market prices for gas and electricity lower.

However, the economy is recovering, particularly driven by manufacturing in Michigan, but also throughout the industrial Midwest. Federal environmental policy will clearly cause the retirement of coal based generation in Michigan and other states in the Midwest. Finally, the price of gas has started to rise with the cold winter, an improving economy that is adjusting to cheap gas by using more of it, and the inevitable construction of large amounts of new gas power generation capacity.

Renewable energy policy has moved forward in Michigan in an effort to diversify our generation fleet, and reduce regulatory risks posed to our coal based generation fleet by federally mandated environmental regulations. Michigan customers have spent hundreds of millions of dollars, primarily on wind based generation to meet that mandate. However, due to the intermittency of wind, MISO (Midcontinent Independent System Operator) that covers most of the Michigan market, uses only 11% of registered wind capacity in its capacity planning.³ The intermittency of wind particularly in Michigan means that installed wind generation does not resolve questions about replacing baseload power capacity in Michigan.

Coal remains the primary generation source in Michigan and in the Midwest. But what is the plan going forward to address capacity needs? Questions about generation capacity in Michigan are legitimate going forward with respect to reliability in Michigan. In its Resource Adequacy Report Update dated January 31, 2014, for Zone 7 (Michigan's lower peninsula), MISO projects a 3.1Gw shortage by 2016.⁴ This report evaluates projected resources compared to projected demand, plus an adequate reserve margin. New energy policies must address the capacity concern raised by MISO to ensure reliability in Michigan.

We are encouraged to hear Governor Snyder talk publicly about the need to recognize energy intensive businesses and the cost of operating in Michigan. We believe there are more options to move closer to cost of service rates and to find solutions that address

³ MISO 2013 Wind Capacity Credit Report December 1, 2012

⁴ OMS/MISO Resource Adequacy Report Update, dated January 31, 2014, page 11

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long term price competitiveness and long term reliability for Michigan's large industrial economy. In the complex and dynamic world of energy and environmental regulation, there is likely no single silver bullet solution.

We would like to continue to work on a broad range of energy solutions intended to both reduce cost and maintain reliability for Michigan's robust and growing manufacturing sector. Deregulation is just one option in the mix, and there is not likely any one single solution that will address both price and reliability for a sustainable energy policy in Michigan.

We appreciate the opportunity to participate in the ongoing discussion. We all share the same goal of making Michigan more competitive and creating more jobs by lowering electric rates and maintaining reliability for Michigan manufacturing customers.

Respectfully,



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