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Cost of electricity in Michigan concerns businesses

Kathy Barks Hoffman / Associated Press

LANSING, Mich. -- Michigan's utility costs are higher than surrounding states and slightly above the national average for industrial customers, a factor that could cause some businesses to rethink whether they want to stay in Michigan.

While natural gas rates in Michigan are relatively low, electricity rates are a concern for some industrial and commercial businesses, according to an April poll of 558 businesses conducted by Lansing-based EPIC-MRA.

Twenty-eight percent said utility costs were their most difficult costs to pay, ahead of taxes, worker's compensation and other items. Only insurance, pushed up by rapidly rising health care premiums, ranked higher than electricity and gas among businesses polled.

"That's really a concern for industrial customers in Michigan when they look at whether they want to expand or stay in Michigan," says former Michigan Public Service Commission member Robert Nelson, who now deals with energy and telecommunications issues at the Lansing law office of Fraser Trebilcock Davis & Dunlap. "It probably has something to do with why some of these industrial users are leaving the state."

According to the federal Energy Information Administration, the average cost of electricity in April for industrial customers among five Upper Midwestern states -- Michigan, Illinois, Indiana, Ohio and Wisconsin -- was 5.18 cents per kilowatt hour. Illinois and Indiana's costs were less than 5 cents per kwh, while Michigan topped the list at 5.90 cents. That compared to a national average of 5.76 cents.

Gov. Jennifer Granholm knows the electric rates in surrounding states are lower for industrial customers. But she says some states' rates have been held down artificially by price freezes that are set to expire. Illinois customers, for instance, could see their prices rise 35 percent when a freeze expires at the end of the year, and she says Ohio customers could see an increase when a rate increase that has been deferred for three years is given the go-ahead.

The Democratic governor also notes that, among 10 major industrial states, Michigan in 2005 had the second-lowest natural gas rates, in part because the state has a lot of storage capacity, and the fourth-lowest electric rates when it came to industrial customers, according to the EIA.

"Thirty-five percent of all manufacturing is done in states with higher gas and electric rates," she says. She adds that the Michigan Public Service Commission has trimmed the size of the rate increases requested by the state's major utilities in recent years.

Consumers Energy Co. spokesman Dan Bishop says the utility's rates are below the national average, even though power generation is more expensive in Michigan because the state has to import the coal, oil and natural gas it uses to power its plants, unlike some states that have those resources on hand.

Still, Republican gubernatorial candidate Dick DeVos says Michigan needs to lower energy costs in Michigan

to make it more attractive to businesses.

"What we see is that we do have high costs," he says. "Electricity is simply too expensive for Michigan job providers."

DeVos pledges to encourage the building of more transmission lines so more power can be brought into the state and carried within it; to pursue wind and solar power; and to invest in alternative fuels such as ethanol, biodiesel and biomass, a promise Granholm also has made.

Major customers usually get a break on rates, something that has helped General Motors Corp. with its new assembly plant in Delta Township near Lansing. Lansing Board of Water & Light spokesman Mark Nixon says the automaker pays an average of 4.93 cents per kwh, one reason it was economical to build the plant in the municipal utility's service area.

A freeze on Michigan electric rates expired at the end of 2003 for industrial customers, at the end of 2004 for commercial customers and at the end of 2005 for residential customers; all saw increases when the freezes were lifted. But Granholm says no big rate increase is on the horizon in Michigan, and that the state's rates are competitive.

The EIA as of April ranked Michigan 26th highest nationally in electric rates for all classes of customers: residential, commercial and industrial. Michigan's average electric rate of 8.02 cents per kwh is lower than the national average of 8.39 cents, in part because both its residential and commercial rates are lower than the national average.

Michigan also faces the need for a new power plant sometime in the next decade, and the cost of building a new plant could push up rates.

In April, Granholm issued an executive directive requiring Public Service Commission Chairman Peter Lark to develop a comprehensive energy plan for the state by year's end. Senate Technology and Energy Chairman Bruce Patterson, R-Canton, also is looking into a long-term state energy policy.

Besides the possibility of a new power plant, the MPSC report also is expected to encourage the use of new technologies to improve energy efficiency, cleanliness and distribution. It also will explore ways to help the alternative energy industry grow in Michigan and require that a certain percentage of the state's energy supply come from renewable resources.

Michigan now gets about 55 percent of its power from coal-burning plants, with the rest coming mostly from nuclear power plants and gas- and oil-fired power plants. A small amount comes from hydroelectric plants and from renewable energy sources such as wind power and biomass, and a pumped-storage plant on Lake Michigan kicks in when demand is especially heavy.

Some experts say a new plant likely would be powered with coal because it's the cheapest source of fuel. But new technology could create less polluting emissions than current coal-burning plants, and conservation and renewable energy could decrease the size of the plant needed to supply customers' needs, they add.

Consumers Energy in Jackson and DTE Energy Co. in Detroit may express interest in building a new plant, though DTE spokesman Scott Simons says anyone who wants to build a plant will want guarantees that customers will pick up the tab to reassure investors.

Given the many new players in the utility field, some are urging that the state open the bidding process to everyone.

Terry Harvill, vice president of Baltimore-based Constellation Energy, soon to be the nation's largest electricity generator, says "there are a lot of companies out there that would like to come in" and present their case that they could build a plant cheaper and faster than the existing utility companies.

Harvill, a former DTE regulatory affairs director and Illinois utility regulator, says the company sells power to

Michigan industrial and commercial customers from its Southfield office through programs that let business customers shop around for the cheapest supplier.

"In today's market," he says, "there aren't really Detroit Edison and Consumers Energy areas anymore."

On the Net:

Michigan Public Service Commission: <http://www.michigan.gov/mpsc>

Energy Information Administration: <http://www.eia.doe.gov>

Consumers Energy Co.: <http://www.consumersenergy.com>

DTE Energy Co.: <http://www.dteenergy.com>

Lansing Board of Water & Light: <http://www.lbwl.com>

Constellation Energy: <http://www.constellation.com>

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