

Gongwer News Service

Volume #46, Report #21 --Wednesday, January 31, 2007

HOUSE HEARINGS COULD BEGIN SHORTLY ON ENERGY PLAN

The House Energy and Technology Committee will begin discussing Public Service Commission Chair Peter Lark's new energy plan for the state in the coming weeks, but it could be many weeks longer before any action is taken, said committee Chair Rep. Frank Accavitti (D-Eastpointe).

The 21st Century Energy Plan, developed at the behest of Governor Jennifer Granholm, is designed to ensure there is sufficient electric supply in the state to meet a projected 1.2 percent annual growth in demand. Mr. Lark proposed to meet that growth in part by generating more power and in part by trying to reduce the demand growth.

Mr. Lark said at a media roundtable where he released the energy plan that its goal was to diversify the state's energy sources to meet expected demand increases while trying to hold down the cost of meeting that demand.

The plan calls for creation of an energy efficiency fund, greater reliance on renewable energy as well as statutory changes to make it easier for utilities to finance new power plants.

Under the plan, customers would contribute to an energy efficiency fund to pay for various programs to help customers reduce power use. The fund would start out at \$68 million, but Mr. Lark said he hoped to see it grow to \$110 million in three years.

Over 10 years, helping customers upgrade to more efficient lighting and appliances could reduce the state's electric demand by 660 megawatts, about the output of a standard baseload power plant.

For additional power, the plan pushes for additional reliance on renewable resources, with 10 percent of the state's load being met by renewable sources by 2015.

Mr. Lark said the lion's share of that renewable power would probably come from wind turbines. He said modeling shows there is sufficient wind strength and duration in many areas of the state to meet the requirement with that source alone, though he said the plan also calls for other sources to be added to the mix, such as solar and anaerobic digesters, which convert animal and plant waste into methane gas that is then burned to generate power.

And he said the emphasis on renewables also would mean more money for the state. "Right now we send billions of dollars outside the state for coal and purchased power," he said.

The plan was helped some by the reduced forecast for demand growth. An earlier

report by the commission had pegged electric demand growth at 2.1 percent annually, but he said the recent economic struggles have reduced the estimate to not only below the earlier estimate, but also below national projections (1.8 percent) and Midwest projections (1.6 percent).

But he said not adopting his plan, or something similar, would cost Michigan power customers some \$4 billion more by 2020 because of the cost of purchasing power on the Midwest Independent System Operator market.

"Buying power in the Midwest presents a couple of problems: is there going to be enough and at what price?" Mr. Lark said. Price has been driven up on the market both by rising natural gas prices and falling supplies, he said.

"I believe the best way to handle the power we're going to need is that by 2015 we invest in a panoply of options," he said.

Mr. Lark said the commission could implement some of the proposals on its own, but would need statutory changes for the key provisions.

Mr. Lark said he has legislation ready to address some of the provisions, but Mr. Accavitti said he would also like to focus on some of the broad issues brought out in the plan.

"I would like to have hearings as soon as possible about additional generation needs," Mr. Accavitti said, noting he agreed there is some need for additional supply in the state.

But he said the committee also needs to explore whether the renewable power standards set out are sufficient and whether the state's experiment with customer choice has worked.

His current plan is to have Mr. Lark in first to explain the proposal, then to schedule in the utilities and the various interest groups to provide their input on it. Mr. Accavitti said the committee may also break into subcommittees to deal with some of the issues.

"Perhaps it's time that we have some hearings and decide if PA 141 and deregulation is working in this state," he said.

Ms. Granholm praised the report as a first step in implementing an energy plan. "In asking for the plan, the governor has obviously provided the leadership in developing a comprehensive energy policy," press secretary Liz Boyd said. "We need to work with the Legislature in enacting such a policy."

And she said the policy proposed by Mr. Lark is a strong starting point. "We're very pleased with the approach and the balance in the report," Ms. Boyd said. "We're

especially enthused about the recommendation on renewable portfolio standards."

The state's major utilities also praised the steps toward a comprehensive plan.

"It's clear that Michigan is long overdue for a long-term, comprehensive energy plan," said Scott Simons with Detroit Edison. "The report is a first step in that process."

"We do agree with the report's major conclusions that customers in Michigan are using more electricity every year and if we don't act now the state won't have enough power to meet its needs," said Dan Bishop with Consumers Energy. "Creating a secure energy future in Michigan will require a full court press involving renewables, conservation, energy efficiency and, as the report indicates, at some point new power plants in Michigan."

But both utilities were still reviewing the details of the plan to decide if they would support it in whole or in part.

Many groups, however, had already decided there was much not to support in the plan. Environmental groups argued there was not enough renewable energy and conservation in the plan, while customer groups and competitors said the plan would essentially re-regulate power in the state.

Among the detractors on those proposals was fellow commissioner Laura Chappelle. "While I am still reviewing the report, I certainly agree that any proposed energy policy must strike the right balance between providing the incentives necessary to meet Michigan's electric infrastructure needs, allowing customers all available options to address their energy needs, and protecting ratepayers," Ms. Chappelle said in a statement to Gongwer News Service. "However, I am concerned that the report may cut short important available customer options and appears to include expensive mandates."

Customer and competitor groups said the proposal to allow utilities to build the costs of financing construction of a new power plant into their rates before the plant opens and to charge those seeking alternative energy suppliers for a portion of the cost of that construction would essentially close the choice market in the state.

Utilities would be able to seek a certificate of need from the commission showing that, without the proposed plant, they would not be able to meet customer demand. At the point the certificate is issued, the utility could seek to build the interest and other costs for financing the plant into its rates immediately. The actual construction costs would still not be recoverable until the plant was operating.

Mr. Lark said the proposal was not a guarantee to utilities would get the commission's nod that a plant was needed or that it could begin charging for it if it was approved. He said the commission would review whether renewable energy was being sufficiently tapped and would consider such things as plans by alternative suppliers to build plants

in the state that would cover the load.

But he said the utilities needed some guarantees for lenders to be willing to provide financing for the plants. A coal plant in the current market would cost about \$1.8 million per megawatt and would likely be built to produce between 500 MW and 1,000 MW. A nuclear plant, more likely sized toward the 1,000 MW end, would cost about \$2.4 million per megawatt.

Competitors argued they had no such guarantees, and yet were building such baseload plants around the country.

"If this set of proposals is adopted, nobody can compete with utilities," said Eric Schneidewind, an attorney representing competitors and former chair of the PSC. "In the last seven to eight years, non-utilities have come into the state and built about a fifth of the state's capacity. Now we're proposing changes that would essentially take away from them the market that they intended to serve."

"Other companies have said they're willing to come to Michigan and build a plant, let's give them the opportunity," said David Waymire, spokesperson for the Association of Businesses Advocating Tariff Equity. "We have the highest rates in the Midwest thanks to a system similar to the one Mr. Lark has proposed we go back to."

Mr. Waymire said the state had previously given utilities the nod on new power plants, only to see cost estimates increase once the plant was approved. He and others noted that the Fermi II nuclear plant was originally estimated to cost \$400 million and ended up costing about \$4 billion.

Mr. Lark said the proposal would help to keep costs down by requiring that the utilities bid out the construction of any new plant, but Mr. Schneidewind said alternative suppliers should also be allowed to bid on providing power and maintain ownership of the plant.

And Barry Cargill with the Customer Choice Coalition said the proposal to add a surcharge to bills of those who leave for competitive suppliers would essentially shut down that flow of customers.

"This proposal is clearly going to increase the cost for choice customers to the point where the economics are not going to work," Mr. Cargill said.

The plan also would hamper competition by making it more difficult for customers to move between competitors and utilities. Current law requires that a customer changing to an alternative provider remain off the utility's load for two years, but Mr. Cargill said the new proposal would require the customer to give the utility two years' notice before returning to that load.

While Mr. Lark acknowledged the concerns of the competitors that the utilities were

being given special treatment, he said the utilities are also given special responsibilities: they must serve all customers in their territory. "Nobody says to the unregulated side, 'You've got to make sure you can cover your load,'" he said.

Mr. Lark indicated that current competition rules were already degrading the market for competitive power. He said a report from the PSC due out Thursday would indicate significant drops in the load served by alternative providers over the past two years.

Environmental groups said the overall load should be covered even more by renewable power. Mr. Lark said the models he used showed 10 percent of the total load was an achievable goal.

Mr. Bishop said Consumers already obtains 5 percent of its load from renewable sources.

But environmental groups said the state could reasonably have 13 percent of its power from renewables by 2015 and 20 percent by 2020 (Mr. Lark held out until 2025 for the 20 percent goal).

"Such a heavy reliance on coal is a relic of the past century, and an increasingly dangerous and fragile method of putting all our energy eggs in one basket," said David Pettit, consumer advocate with the Public Interest Research Group in Michigan.

The groups also pushed for more money toward energy efficiency. "Energy efficiency doesn't sound sexy, but it's the cheapest, fastest and cleanest energy resource available to Michigan. It must be the centerpiece of any visionary energy plan," said Dr. Martin Kushler, Utilities Program Director of the American Council for an Energy Efficient Economy. "Each kilowatt-hour saved by ratepayers through programs for high-efficiency appliances, lighting and other energy efficiency improvements costs less than half what utility ratepayers would pay if that kilowatt-hour was bought from a new power plant."

Environment Michigan argued the fund should max out at \$150 million. It also argued the PSC should not approve construction of any additional coal or nuclear plants until all renewable options have been exhausted.

Mr. Cargill agreed that energy efficiency was an important goal and said the proposed fund could help the state toward it. But he warned it also could become a slush fund.

"We have to be careful that that doesn't become another cost for customers for a program that doesn't work," he said.