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MICHIGAN REPORT

THINK TANK CALLS FOR FEW CHANGES TO ELECTRIC MARKET

Though the state's electric market restructuring program needs some changes, it does not need the overhaul provided in a recently-introduced Senate package, said the Mackinac Center for Public Policy through a report issued Wednesday and a luncheon presentation.

Utilities, particularly Detroit Edison, have argued that the reforms under PA 141, 2000, were going to cost electric customers more in the long run and have been predicting large rate increases when rate all freezes are lifted in 2006. But Theodore Bolema, author of Assessing Electric Choice in Michigan for the Mackinac Center, said the competition already introduced into the market would largely prevent those increases.

"The restructuring is proceeding generally very well," Mr. Bolema said at the luncheon. "The scare scenarios just aren't plausible."

But utility officials argued that the only way to ensure a reliable electric market without increasing rates is to pass the Senate package (SB 1331, SB 1332, SB 1333, SB 1334, SB 1335, SB 1336). Kelly Rossman-McKinney, spokesperson for The Michigan CLEAR (Citizens for Long-Term Energy Affordability and Reliability) Coalition, which is largely backed by Detroit Edison, said following the Mackinac Center proposal leaves out some key needs of the state's utilities and their customers.

"We are encouraged that the Mackinac Center's policy briefing on electric deregulation acknowledges some of the disparities of PA 141, and even supports some of the key legislation currently introduced to fix those disparities," Ms. Rossman-McKinney said. "At the same time, we are disturbed at the Mackinac Center's willingness to support immediately eliminating the rate cap, which would instantly cause Michigan's residential and small business electric rates to skyrocket. We are also concerned by their lack of support for sharing responsibility for a fund that calls on all Michigan citizens to help low-income residents."

Mr. Bolema said the one provision of the package that does need to pass would eliminate the requirement that utilities take customers back at regulated rates once they have opted for a competitive generator.

Though representatives of alternative generators argued there is a need for customers to be protected from utility rate hikes to punish them for leaving in the first place, at least during a transition period, Mr. Bolema said the market would prevent such punishment. He argued that they would have to be attractive customers for the alternative suppliers to seek them out in the first place, so it would be in the utilities' best interest to try to attract them back.

Mr. Bolema said the current caps on rates are also unnecessary. Any price jump by the utilities, or any other generator, would provide openings for other companies to come in and try to take those customers with lower rates, he said.

But the Mackinac Center supported any rate increase that represented elimination of subsidies between customer classes, arguing those subsidies interfered with the market.

The proposal to require all electric suppliers to contribute to a low-income assistance fund is essentially a new tax, Mr. Bolema said. "It may be a very worthwhile social goal," he said of the assistance program. "It should go through the general fund."

Mr. Bolema said both the state and federal government already have programs in place to assist the poor with utility bills, and he said those should be expanded and better coordinated if more assistance is needed.

The proposed requirement that all suppliers have a 15 percent reserve for each of their customers places an unnecessary burden on competitors, Mr. Bolema said. While he agreed it would put all companies on equal footing, he said it would take away electric suppliers' flexibility in making sure they can meet peak load. And he said the system provides an incentive to utilities to find ways to use that reserve rather than to reduce load and try to eliminate high peaks in use.

Utility representatives at the group's luncheon argued the 15 percent reserve was needed to be sure there was sufficient power for the customers of all generators. But those with alternative suppliers said the regional transmission organizations already require them to have minimum reserve capacity before putting power into the grid at the wholesale level and they said there were significant financial penalties for those companies whose customers used more power than they put into the grid.

And Mr. Bolema noted there had not yet been a situation where an alternative generator sold more power than it actually generated or purchased because of the checks already in place.

Mr. Bolema said there should also still be a provider of last resort for those who do not want to search for a provider or for those who otherwise are without a power provider. But he said that should not fall to the current utilities and instead should be bid out by the state to the lowest-cost provider.

The report also chastised the proposal to provide rate cuts to schools. "That's about the rate reduction they get when they turn to alternative suppliers," he said of the 20 percent cuts proposed in the package. "Potentially those gains could be even greater going forward," he said of the current system.

And granting the rate cuts through the regulatory system would mean passing those cuts on to other customers, Mr. Bolema said.

No hearings have yet been scheduled on the bills.