



A POLICY GUIDE TO



ENERGY CHOICE

IN MICHIGAN



MACKINAC  **CENTER**
FOR PUBLIC POLICY

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POLICY PRIMER

Summary

You could be forgiven for thinking that having an “electricity choice market” in Michigan would mean you would be able to choose the utility you want to provide your electricity — just like you do with your cable or cell phone service. But real choice does not exist in Michigan anymore.

A 2000 state law allowed all retail electricity customers to choose their electricity supplier beginning in January 2002. Ostensibly that meant that if customers were unhappy with the service or rates they were provided, they could look for another option. But a 2008 amendment to that law gave two regulated public utilities — DTE and Consumers Energy — a monopoly over 90 percent of the retail electricity market in the Lower Peninsula.

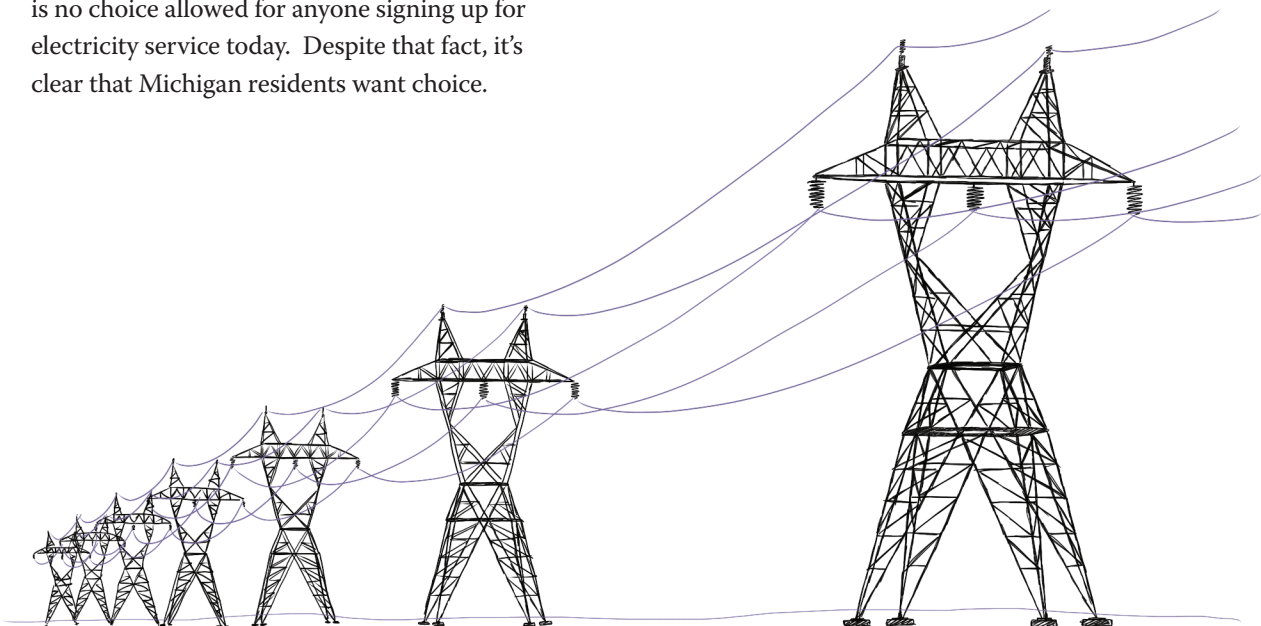
So, today, only 10 percent of retail electricity customers can choose their service provider. Since that 10 percent cap was quickly met, there is no choice allowed for anyone signing up for electricity service today. Despite that fact, it's clear that Michigan residents want choice.

Over 7,000 customers are waiting in line for the choice program, and the state government estimates that, if the cap was removed, 28 percent of all electricity customers would opt for a different provider.

Opening up electricity markets would inject competition into this sector, creating incentives for utilities to offer lower prices and better, or different, services to their customers.

Other states have made use of competitive markets to help drive down electricity rates for customers, all while maintaining reliability and promoting new investment and innovation in energy infrastructure.

The Michigan Legislature should remove the 10 percent cap on Michigan's electricity choice markets and open up competition again, as they once did in 2000.



What is “Electricity Choice”?

In the summer of 2016, the Mackinac Center received an email that exemplifies the confusion Michiganders often have about the term “electricity choice.” The email said:

I have never understood anything about the “choice” question on electricity. What choice? I have lived in Michigan since 1996 and paid my electricity bill every month for the past 20 years. I’ve never had “choice.” I get a bill and it’s always Consumers Energy. I get that other people get Detroit Edison. But you don’t get a “choice.”

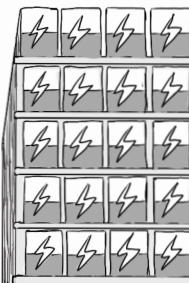
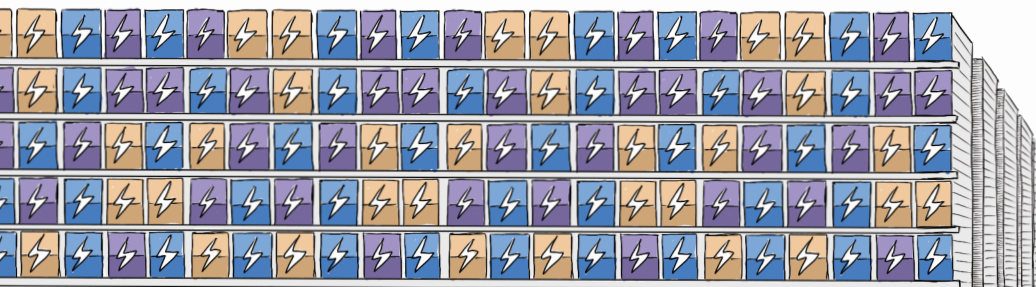
As we discussed in a 2016 blog post on electricity choice, Michigan residents know they are not allowed to choose the company that provides their electricity. In Michigan, most people receive a monthly electricity bill from one of the big utilities and they pay it. The end.

But there is more to the issue of choice in electricity.

The process of providing electricity for residential, commercial and industrial customers is broken up into three phases.

1. **Generation:** In this phase, electricity is produced by consuming coal or natural gas, splitting uranium atoms, or capturing energy produced by the wind or the sun.
2. **Transmission:** This phase consists of transporting electricity from a generation plant to a substation.
3. **Distribution:** This phase involves the power poles and underground electrical lines that connect our homes and businesses to the substation and the larger electrical grid. It’s the final phase of the process of producing and delivering electricity for its use by customers.

In Michigan, “electricity choice” (also known as “retail open access”) relates only to the generation and distribution phases. When most Michigan residents and businesses sign up for electricity service the only “option” they have is a regulated, monopoly utility company. In the Lower Peninsula, that is either DTE or Consumers Energy. In the Upper Peninsula, you will likely receive your service from the Upper



Peninsula Power Company or Upper Michigan Energy Resources.

The Customer Choice and Electricity Reliability Act, or Public Act 141 of 2000, granted access to electricity choice for Michigan residents as of January 1, 2002. That meant utility customers were free to sign up in the electricity choice market and receive electricity services from an alternative electricity supplier. This is the same sort of thing we do with our cell phone and TV services.

Public Act 286 of 2008 changed the 2000 law by re-regulating the vast majority of Michigan's electricity markets and guaranteeing 90 percent of the retail electricity distribution market to DTE and Consumers Energy. That change meant alternative energy suppliers were now limited to providing no more than 10 percent of the electricity sold in the state.

That cap on choice markets has the effect of limiting customer access to lower-priced, competitive electricity rates. Instead, electricity customers in the regulated market have their rates set by monopoly utilities, who must obtain approval for those rates from the Michigan Public Service Commission. The MPSC is a state government body, made up of three governor-appointed commissioners, that, among other

things, is charged with “establish[ing] fair and reasonable rates for regulated services...for Michigan’s utility customers.”

Customers in the choice market pay rates that are established by market forces and competition. But to exercise the alleged “right” to choose, customers must sign up for electricity service from a monopoly utility and then apply to be added to a waiting list. The MPSC’s 2017 report, Status of Electric Competition in Michigan, revealed that 5,929 Michigan businesses and public schools had enrolled in the choice market. Another 7,039 customers were on the waiting list, and 28 percent of electric customers would opt for the electricity choice option if the cap was removed. The customers lucky enough to exercise choice like it, and almost no customers have been able to move from the waiting list to the choice market since 2008.



2017 Michigan Outage Summary

**Over
2 million**

**Total number of people
affected by outages**

**14,052
minutes**

or

**almost
10 days**

**Total duration
of outages**

155

Total number of outages

5

**National ranking for
most outages**

13,036

**Average number of people
affected per outage**

**76
minutes**

**Average duration
of outage**

Frequently Asked Questions

Michigan law says I have a right to choose my electricity provider. So how can I choose?

You can't.

In Michigan, the right to choose is a right in name only. Only 10 percent of the electricity market is open to competition and that portion is fully booked. No new choice customers have been allowed into the program in a decade.

Why would I want to enter the choice market?

The main reason that customers have entered the choice program is that they are able to obtain electricity at a much lower cost, with service that is just as reliable as that provided by monopoly utilities. For example, the Michigan Schools Energy Cooperative reports that, through 2016, it has helped save Michigan school districts over \$121.4 million by enrolling them in the electricity choice program.

Richard Terres, the superintendent of Howell Public Schools, said his district saves about \$196,000 per year in the electricity choice market, or enough to pay three teacher's salaries.

Clarkston Community Schools report that they save over \$280,000 per year, or \$40 per student.

Are the monopoly utilities more expensive? Do customers really need a choice?

The reality is that if the monopoly utilities were offering Michigan residents lower rates and more

reliable service, customers would have no reason to switch.

But the Michigan Public Service Commission reports that there are more electricity customers waiting in line to have a choice than the number of customers who currently get to choose. Further, the MPSC reports that 28 percent of electricity customers would enter the choice market if they were able to do so.

Additionally, a 2014 poll showed that 58 percent of likely voters supported the Legislature eliminating the 10 percent cap on electricity choice. A 2016 poll arrived at similar findings when it reported that 66 percent of likely Michigan voters indicated their desire to be able to choose among electricity suppliers, just like they choose between their cable and telephone providers.

But aren't large, monopoly utilities more efficient and reliable than free-market competition?

Michigan's experience suggests just the opposite, and service and pricing trends paint a very clear picture.

When Michigan residents had a choice, our electricity prices were lower than the prices paid by neighboring states and the prices paid by the rest of the nation. Under the restrictive nature of Michigan's regulated monopoly system, we

now have higher electricity rates than our Great Lakes neighbors and the national average.

From 1990 to 2000, before implementing electricity choice, Michigan's total electric rates were on average 4.8 percent higher than the national average, and 6.5 percent higher than the average price of other Great Lakes states.

Michigan passed the electricity choice bill in 2000 and, in 2002, residents were allowed to begin choosing their electricity providers. By the end of 2002, Michigan's average total electric rates had dropped to 1.5 percent below the national average and to 1.1 percent below the Great Lakes states averages.

In 2008, Michigan's average total electricity rates were 8.3 percent below the national average and 6.2 percent below the Great Lakes states average. But soon after the cap on electricity choice was imposed in 2008, Michigan's electricity rates once again began to increase, and much more rapidly than adjacent states and the nation as a whole.

From 2008 to 2016, average total electricity prices for the total electricity industry in Michigan rose from 8.93 cents/KWh to 11.05 cents/KWh — a 23.7 percent increase. Over the same period, total electricity prices in the Great Lakes states only rose 9.2 percent and nationally rates increased by just 5.4 percent.

In 2016, Michigan had the highest residential retail electricity rates in the Midwest, and our total electricity rates were 6.3 percent higher than the other Great Lakes states and 7.6 percent higher than the national average.

The evidence is abundantly clear, the competitive pressures brought on by a free market in electricity generation and distribution forced utilities to offer their customers lower rates and better services. Imposing an arbitrary cap on the choice market has hampered competition, increased costs and restricted customer options. It is, therefore, time to remove the cap on the choice markets and return choice to Michigan residents.

Won't a more deregulated system threaten the environment?

Making electricity providers compete and giving customers a choice in providers does not necessarily mean there will be fewer regulations to protect the environment. The state still retains the authority to regulate electricity providers and to require that they limit their environmental impact. Additionally, market pressures can push for even more clean energy options from utilities. As a result, businesses could choose to offer their customers more environmentally focused generation options, and customers would have the freedom to pay that premium if they so desired. If they didn't, they could choose some other offering.

One example of the increased options comes from the state of Texas. Texas arguably has the most open access to electricity choice in the country. But Texas also has the most wind generation in the nation; more than five times more wind than the much more heavily regulated and widely considered "green" state of California.

Will electricity choice increase the risk of blackouts and other reliability issues?

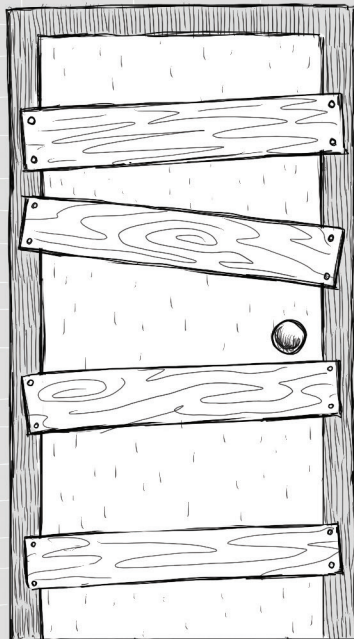
There is no evidence that states that use competitive markets experience more blackouts than states that tightly restrict competition.

In fact, despite having 90 percent of our electricity supplied by regulated monopoly

utilities, the Eaton “Blackout Tracker: United States Annual Report 2017” ranked Michigan as the state with the fifth highest number of reported electricity outages in 2017.

Relying on regulated monopoly utilities to provide electricity is no guarantee that customers will have reliable electricity.

MICHIGAN'S ELECTRICITY MARKET

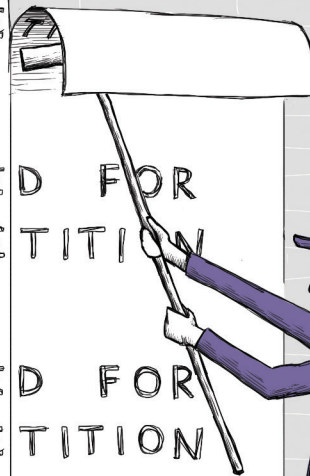


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Real Stories and Real People: Why It Matters

No matter whether people think public schools have too much, just enough or too little funding, most people agree that public schools should not spend tax dollars inefficiently. So, when public school administrators report that by switching electricity suppliers, they could save as much as 25 percent on their electricity costs, all taxpayers should take notice. This is exactly what Michigan school administrators have said.



For example, Richard Terres, the superintendent of Howell Public Schools, said his district saves about \$196,000 per year in the electricity choice market. Terres reports that those savings are about what it takes to pay three teacher's salaries. He says, "One of the only [fiscal] bright spots we have had during this past decade has been the electric choice program."

But when Michigan's Legislature and monopoly utilities push for new laws that restrict or hinder access to electricity choice markets, they will effectively raise the costs of providing an education for Michigan's children. Terres argues, "Now is not the time to eliminate those savings and thus hurt Michigan kids."

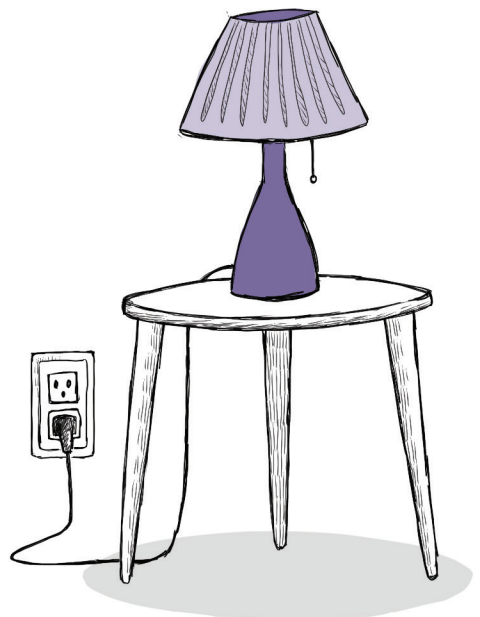


Clarkston Community Schools agrees with Terres. Each year they save over \$280,000 — that's about \$40 per student — in the electricity choice market. This represents an approximate

25 percent savings to the district's electricity budget. Mary Beth Rogers, the executive director of business services for Clarkston, said, "Eliminating or restricting electric choice impacts students." The more money districts have to spend on electricity the fewer teachers they can afford to lead their classrooms.



The Michigan Constitution mandates that taxpayers provide education to every child. Shouldn't schools be able to do that in the most efficient and cost-effective manner possible?



The Data

Michigan's public utilities have suggested that the only way to ensure reliable electric service is by giving them a monopoly. However, these utilities currently have a monopoly on 90 percent of their markets, and still the state is consistently ranked in the top five nationally for having the most power outages. Michigan had the fifth most outages in 2015 and 2017 and fourth most in 2016.

Additionally, Michigan's average total electric industry prices, an average of residential, commercial and industrial prices shown in cents per KWh, shows a clear trend relative to the other Great Lakes states and the national

average. From 1990 to 2000, Michigan's average total electric price was higher than the national average and the average of the other Great Lakes states.

But, in 2000, when Michigan implemented a free-market, choice option for electricity, its average total electricity price quickly dropped below both the average price for other Great Lakes states and the national average.

After 2008, when Michigan re-instituted its 90 percent monopoly, its average total electricity price climbed quickly back above the Great Lakes states and national averages and has remained there to today.

Top states with most reported outages

Rank	2017	2016	2015
1	California (438)	California (470)	California (417)
2	Texas (192)	Texas (197)	Texas (201)
3	New York (1165)	New York (197)	New York (173)
4	Ohio (158)	Michigan (192)	Ohio (155)
5	Michigan (155)	Ohio (184)	Michigan (152)
6	Pennsylvania (134)	North Carolina (152)	Pennsylvania (144)
7	North Carolina (126)	Pennsylvania (146)	North Carolina (121)
8	Massachusetts (112)	Virginia (118)	Virginia (106)
9	Washington (111)	Florida (107)	Washington (104)
10	Virginia (95)	Massachusetts (106)	Indiana (100)

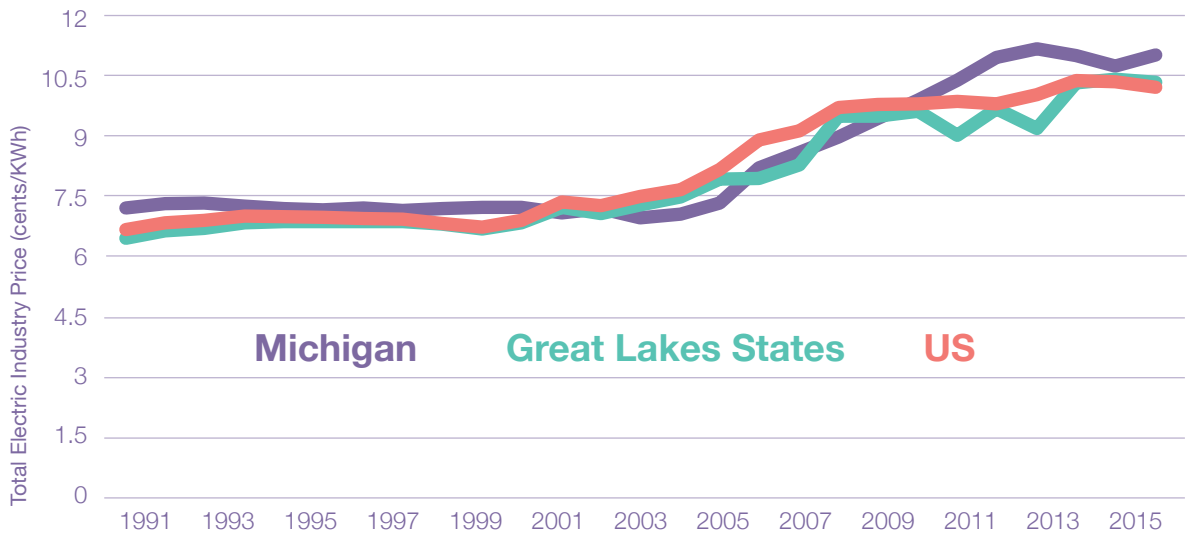
Source: Eaton Blackout Tracker: United States Annual Report 2017 (www.eaton.com/blackouttracker)

Average total electrical industry prices (cents/KWh)

	Year	Michigan	Great Lakes States	% difference	National	% difference
	1990	7.1	6.37	11.5%	6.57	8.1%
	1991	7.21	6.55	10.1%	6.75	6.8%
	1992	7.23	6.63	9.0%	6.82	6.0%
	1993	7.14	6.76	5.6%	6.93	3.0%
	1994	7.09	6.80	4.3%	6.91	2.6%
	1995	7.05	6.79	3.8%	6.89	2.3%
	1996	7.1	6.80	4.4%	6.86	3.5%
	1997	7.04	6.80	3.5%	6.85	2.8%
	1998	7.09	6.74	5.2%	6.74	5.2%
	1999	7.12	6.60	7.9%	6.64	7.2%
Electricity choice bill passes	2000	7.11	6.77	5.0%	6.81	4.4%
	2001	6.97	7.16	-2.7%	7.29	-4.4%
Consumers begin choosing utility providers	2002	7.09	7.01	1.1%	7.20	-1.5%
	2003	6.85	7.23	-5.3%	7.44	-7.9%
	2004	6.94	7.43	-6.6%	7.61	-8.8%
	2005	7.23	7.90	-8.5%	8.14	-11.2%
	2006	8.14	7.91	2.9%	8.90	-8.5%
	2007	8.53	8.26	3.3%	9.13	-6.6%
Electricity choice revoked	2008	8.93	9.52	-6.2%	9.74	-8.3%
	2009	9.4	9.52	-1.3%	9.82	-4.3%
	2010	9.88	9.65	2.4%	9.83	0.5%
	2011	10.4	9.03	15.2%	9.90	5.1%
	2012	10.98	9.71	13.1%	9.84	11.6%
	2013	11.21	9.19	22.0%	10.07	11.3%
	2014	11.03	10.38	6.3%	10.44	5.7%
	2015	10.76	10.48	2.7%	10.41	3.4%
	2016	11.05	10.40	6.3%	10.27	7.6%

Source: U.S. Energy Information Form EIA-861 "Average Price (Cents/kilowatthour) by State by Provider, 1990-2016"

Average total electrical industry prices (cents/KWh)



Source: U.S. Energy Information Form EIA-861 "Average Price (Cents/kilowatthour) by State by Provider, 1990-2016"

Conclusion

Competition has been introduced in a wide range of other formerly monopolized markets with high fixed costs, including cable television, telephone service, airline travel, natural gas production and freight shipments over railroads. Today, each of these markets is characterized by competition, and, for the most part, the absence of government price regulation.

If we applied Michigan's current approach to electricity requirements to other markets, the result would be a market-jarring and choice-limiting step back in time. In cable television, local cable firms would be guaranteed a 90 percent market share and customers wanting to switch to satellite TV or Internet streaming options would be placed on a waiting list until a spot opened up for them. AT&T landline service would also

have a 90 percent guaranteed share of customers, and those wanting to save money by switching to an alternative telephone provider would also be forced onto a waiting list. Many of these market restrictions in these sectors have been lifted and the result is that more people have more choices over these services than they've ever had before. And the quality of these services continues to improve.

There's no reason why customers shouldn't be able to benefit from the same type of competitive market when it comes to electricity. It is time to return to the electricity regulation Michigan once used from 2000 to 2008, when customers had a real choice and electricity providers competed on price and service to the benefit of ratepayers.





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