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What will green power cost? Surcharge, spending cap considered

By [Amy Lane](#)

LANSING — Michigan's drive to renewable energy is generating concern about higher electricity prices.

The issue: How, and at what price, will utilities or other energy providers build or purchase renewable power to meet a proposed state mandate that 10 percent of power come from renewable sources by 2015?

"They really have to start going to town in a short period of time. And doing that, whether they're building or buying, there will be an additional expense that comes with it. And that's going to come back to the ratepayers," said Chuck Hadden, vice president of government affairs for the **Michigan Manufacturers Association**.

Under one option being discussed in the state House, utilities and other electricity providers, pending **Michigan Public Service Commission** approval, could assess a 20-year surcharge on all customers at the start of their plan to meet the renewable portfolio standard, or RPS.

At maximum, the surcharge would enable providers to spend about \$6 billion — an amount that both **DTE Energy Co.** and **CMS Energy Corp.** have estimated it would take to meet the proposed RPS, as *Crain's* reported in February.

The House bill limits the surcharge to no more than \$36 annually for residential customers, \$190 annually for small and medium-size commercial customers and \$2,250 annually per meter for large commercial and industrial customers.

If spending exceeds those amounts, the provider would need to go no further toward achieving the RPS, even if it had not reached the full 10 percent.

"It just puts a governor on it so that we don't have dramatically increasing costs," said House Speaker Andy Dillon, D-Redford Township. "The mere fact we have that 10 percent, it's going to invite people to come and experiment in Michigan."

It's a topic that states around the country have grappled with as they've enacted renewable portfolio standards. According to the **National Conference of State Legislatures**, 25 states and the District of Columbia have renewable standards, while three additional states have set voluntary goals.

Glen Andersen, program principal at NCSL, said some states have enacted caps or grace periods for utilities, and states have also included energy efficiency as a way to achieve an RPS goal.

In Michigan, an RPS is part of a complex energy debate in the Legislature that includes bills that would set new standards on energy efficiency, alter utility rate structures, establish a new approval process for power plants and other electricity generation, and narrow the Michigan law that lets customers choose alternative-electricity suppliers.

Both DTE and CMS support the RPS with caps, provided it is part of the comprehensive package being discussed in the state House.

"Our goal is going to do this as effectively and efficiently as possible, so we can accomplish it," said Trevor Lauer, DTE vice president of retail marketing. "We're supportive of the 10 percent, as long as the appropriate off-ramps are there."

Off-ramp is the term being used in Lansing to describe the circumstances that allow utilities and alternative-electricity providers to stop progress toward a renewable portfolio standard if the cost becomes too high.

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But Andy Such, president of **MI Energy Future** — a coalition of business, manufacturing, agriculture and environmental interests that is seeking an RPS — said one problem with the House approach is that it places a surcharge on customers before the renewable projects are built.

"Collecting money up-front makes it a self-fulfilling prophecy that renewables will cost more," Such said. "We shouldn't start collecting anything until these projects go on line."

Off-ramps such as those in the House approach are key to a renewable mandate winning the acceptance of some business groups.

"Nobody wants to have sticker shock," said Hadden. "I oppose a mandate that forces companies to do something that may end up costing the customers more money, which this would do. Having said that, if you're going to have a mandate ... then we'd better have safety valves in there."

And even then, he and Doug Roberts Jr., director of environmental and energy policy at the **Michigan Chamber of Commerce**, said price caps alone aren't enough. Another item essential to their support is passage of legislation that would alter Michigan's utility-rate structure and end a system in which business customers pay higher rates to subsidize residential customers.

Roberts said revising the rate structure to have it reflect cost of service would produce a 10 percent rate reduction for business customers, against the 0.8 percent rate increase that would result from the renewables surcharge as proposed in House legislation.

He said the chamber can support the renewables surcharge as part of a comprehensive package to increase renewable energy as well as pave the way for more traditional power plants in Michigan so the state is not reliant on out-of-state power.

State Rep. Dave Palsrok, R-Manistee, co-chair of a subcommittee that worked on the RPS issue, said it is important to diversify Michigan's energy portfolio and lessen reliance on plants that produce higher-cost power used at peak times.

"There is a severe cost to doing nothing," Palsrok said.

But others say Michigan needs a different approach.

A coalition of large- and small-business groups, consumer interests and alternative-electricity suppliers says Michigan needs to inject competition to ensure the lowest cost as the state moves toward additional power sources. The **Customer Choice Coalition** says that new renewable power should be compared to the cost of a new coal-fired plant, and supports Senate legislation that would set up a process for bidding on new power plants as well as all renewable-energy projects, like wind farms, that the state would need to meet the RPS.

"It's very important that we give renewables an opportunity to compete against new coal plants, and we believe that they may be quite competitive," said Dave Waymire, spokesman for the coalition and partner in Lansing public-relations firm **Martin Waymire Advocacy Communications Inc.**

There are many variables in the debate over future prices: Some point to items like coal prices and federal regulations that can increase the future cost of coal plants, while others cite unknowns on the renewable side, like the future availability of a federal tax credit for wind power production, transmission costs, and prices for turbines.

Experts say states need to take a complex variety of factors into consideration in crafting renewable standards that achieve their goals. An April 2007 study of state standards, by **Lawrence Berkeley National Laboratory** scientist Ryan Wiser and members of the federal **Energy Information Administration**, finds that some RPS programs "appear to have stimulated significant renewable development, and at relatively low cost, while others have not."

That study and one a month before it, also co-authored by Wiser, also finds that RPS policies have not had a sizable impact on most electricity rates.

Amy Lane: (517) 371-5355, alane@crain.com

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