

MIRS Capitol Capsule **Friday, April 4, 2008**

Consumers CEO Makes Case For Energy Bills

The head of CMS Energy told *MIRS* today that he's found "frustrating" the quantity of "misinformation" floating around Lansing about the pending House energy reform legislation.

David **JOOS** said, no, the bills House Speaker Andy **DILLON** (D-Redford Twp.), Rep. Frank **ACCAVITTI** (D-Eastpointe) and Rep. Mike **NOFS** (R-Battle Creek) are working on doesn't allow the state's two major utilities to pass along to residents any and all power plant construction cost overruns. The Michigan Public Service Commission (MPSC) still must sign off.

The bills don't eliminate electric choice in Michigan. And, no, the bills will not mean a \$2.7 billion cost increase to customers. Rather, customers will see rate decreases compared to customers' projected future energy bills without reform, he said.

Joos, president and CEO for CMS Energy and CEO of its principal subsidiary, Consumers Energy, spoke with *MIRS* at length about the House legislation to scale back the state's electric choice law, P.A. 141. The following are excerpts from that interview:

Q. Is the business community going to be more proactive in changing the direction of the state given the recent difficulties the Legislature has seen?

A. I think businesses like ours who are wedded to the state of Michigan are very interested that the state does well, and that's across the board. There are a number of business groups, like the Michigan Manufacturers Association, like the Michigan Chamber of Commerce, like Detroit Renaissance, that are very interested in what they can do to help move the state forward.

Q. The Legislature wasn't able to complete electrical restructuring or alternative energy before Spring Break. How confident are you that we can reach some type of compromise before Lame Duck or the end of this year?

A. I'm confident we can do it and I'm hopeful the Legislature sees it as a high priority. Both the House and Senate have said it's a high priority of theirs, as had the administration. There's no reason it can't be done. There has been a tremendous amount of work done on this. It's been led on the House side, but the Senate is keeping tabs on what's going on and I know that the Senate Energy Policy Committee has been doing some preparatory work on it.

(Sen.) Bruce **PATTERSON** (R-Canton) said earlier this year that this legislation could get to the Governor's desk in June. There's no reason we still shouldn't establish that as a goal, and I think it's achievable.

Q. If P.A. 141 isn't reformed, what leads you to believe the private sector will not fill the energy

generation void?

A. If you just look back at the last seven years, it's not that people won't build generation. They just won't build baseload generation. What we've seen in Michigan in the last 20 years is no investment in baseload generation by increasing dependence on natural gas.

Since 2000, there's been about 4,000 megawatts of added generation in the state of Michigan, but it's all natural gas fire, and the concern that the 21st Century Energy Plan pointed out was that we're becoming more and more dependent on a fuel that's proven to be expensive and volatile. It may get significantly more expensive.

We may become more dependent, also, on imports from out-of-state. The combination of those two things is a bit risky for the state of Michigan going forward, which is why the 21st Century Energy Plan suggested we have a portfolio approach to this, and we need more baseload generation to protect the state's long-term interests.

Q. Consumers saw its energy use grow by one percent last year and DTE is projecting that its energy needs will only grow by 1.2 percent by 2016. Is there really a need for more electrical generation?

A. I don't think there's any question there's a need for it. That's what the 21st Century Energy Plan looked very closely at. A lot of people look at it and say, "Michigan's economy is weak. We can do things in energy efficiency to try to reduce that growth."

And those two things are true, but let's point out the fact that our load growth grew at close to 2 percent over the last decade, and we have forecasted that it's only going to grow by 1 percent for the next decade. I hope we're wrong because if our economy recovers, it will probably grow faster than that.

Despite the economy's struggles, we still see consumers using more electricity than in the past for lots of reasons — a lot more electronics, plasma TVs. And when we put our own study together that sort of mirrors the way the 21st Century Energy Plan was put together about the state as a whole, our conclusion is that we need to do all of the above to meet Michigan's future energy needs.

We need to focus on energy efficiency. We need to focus on building more renewables, but we're also going to need more baseload generation or we're going to be too dependent on imports, too much on short-term purchases, too much on natural gas. Remember, we have an aging infrastructure. Our fleet in Michigan is the second-oldest in the nation. Our average coal plant is about 50 years old. Some of them are older than that, and, frankly, they're not as efficient as modern technology. So it would probably make sense to retire some of our older units and replace them with higher-efficiency, cleaner-version units on a go-forward basis.

Q. How much of the new baseload generation that you're looking at would go toward retiring these

ancient plants as opposed to adding to the net generation?

A. The plan we filed with the (MSPC), we assume that we retire 850 megawatts of older coal plants and retire them with about 500 megawatts of new coal plant. It could be more than that, but there's some flexibility there. In the end, we don't increase the total amount of coal capacity in this state in our plan. We shift it to more efficient, cleaner technology.

Q. Back in the 1980s, then-Attorney General Frank KELLEY accused DTE and Consumers of building more capacity than it needed and then passing the costs down to customers. Could this be argued again in 2008?

A. Not at all. If you really go back and look at the history of that, in the early 1970s, when the economy was growing very quickly nationwide, there was a huge concern on the part of industrial customers across the county, in particular Michigan, that they would have a shortage of capacity. Customers were urging the utilities to invest in new nuclear power plants.

When we got to the '80s, we had a 1974 oil embargo. We had some severe economic downturn, so there was more capacity than was needed at the time because the economy had slowed down unexpectedly, but that kind of highlights this whole issue of long-term planning. These power plants take a long time to build.

It may have an impact if you overbuild, but you will have a much more severe impact on the economy if you under build capacity.

What we got here is a very prudent approach based on relatively modest growth rates, and certainly not a situation where we're out there building lots of new capacity. We have proposed, in this plan, over the next decade, one new 800 megawatts coal plant.

If you look back in the '70s, even our company had on the drawing boards as many as six new nuclear power plants at a certain point in time, so this a whole lot different. A lot more modest.

Q. Michigan businesses pay a little bit more on their electric bills so homeowners aren't forced to pay as much. Legislation the House is considering would get rid of this dynamic known as de-skewing.

The MPSC is moving ahead with de-skewing in Consumers' rate case. Does that take the de-skewing issue off the table when we're talking about legislation?

A. I don't think it does altogether. The Commission hasn't acted in our case. An administrative law judge has made some recommendations, but the business community has been fairly adamant. This has been an issue for a long, long time, and without legislative guidance, it could become an issue again. Commissioners change, administrations change.

Businesses would like a little bit more certainty if they're going to invest in this state that they're going to be treated fairly from a rate perspective long term, and I think that's a fair comment on their side.

Q. Do we have an idea how much de-skewing would cost residential customers?

A. The plan laid out today is about a five-year phase out of the skewing. The numbers I've seen suggest there may be a little over a 2 percent rate increase associated with that issue over a five-year period.

Q. Do you support de-skewing?

A. Absolutely. From my perspective, and I think all customers ought to stand back and look at it this way, it doesn't make sense for customers to be paying for other than their cost of service. I don't think residential customers feel like they ought to subsidize business customers and don't think business customers feel like they ought to subsidize residential customers. If we're going to treat all customers fairly, we ought to charge them for their cost of service and nothing more.

Q. Opponents to your legislation have compared your proposal to the policy in Wisconsin, where industrial customers have seen a 55 percent increase in eight years, is that a fair comparison?

A. I don't think so at all. Wisconsin, in my view, will be a state that everybody is envying years from now. They are in the process of building a couple of cooling units and updating their fleet. That has caused a significant increase in rates as the new coal plants go into effect, but that's the way these plants work. You build very large plants. You build them infrequently.

When they roll into the rates, they have an impact on rates, but they stay relatively flat after that. They are ahead of the curve, quite frankly. Their production cost, because of their new investment, will be much more dependent on low-cost coal for a long time to come while the states around them are going to be more dependent on gas and imported power, which is the situation we're finding ourselves in. In the end, they're approach will make a lot more sense for the long-term goals of Wisconsin.

Q. The Governor is pushing that 10 percent of the state's energy come from renewable sources by 2015. Can that realistically be done?

A. It can be. I won't say that it's not challenging. If that law were to pass today, both utilities believe it can be accomplished. There are a few unknowns out there. I would say that a majority of that incremental renewable capacity has to be wind capacity.

Consumers has a fair amount of hydro capacity and a fair amount of waste-to-energy projects, that burn things like waste wood. There may be a little bit of room to do more landfill gas projects or other waste-to-energy projects.

We have the wind resource here in Michigan, but siting those wind farms, getting electrical transmission

to them to allow you to move the power from them will be challenging. In some cases, there may be some local opposition for whatever reason.

But my personal belief is it is achievable if we start now and if we make a commitment to it.

Q. Ten percent by 2015 would be awfully expensive, wouldn't it?

A. I don't know that it would be awfully expensive.

The funding mechanism (in the bill) caps the cost to customers and provides for a reasonable off-ramp if costs get out of control. It limits the cost to residential customers at \$36 a year for renewables. It limits the cost to industrial customers to \$2,250 a year and to business customers to about \$200 a year, so none of those costs are going to be unmanageable to any of those groups of customers.

I would be surprised if there was much in the way of pushback to the kind of funding levels that are specified in this bill. Frankly, from our perspective, we think we can achieve the 10 percent mandate well within those funding levels.

Q. Just four years ago 20 percent of Michigan load was on choice. Why are you supporting a cap at 10 percent?

A. This is an issue where there is a lot of misunderstanding or misinformation. There are 37 states in the union that have zero percent choice. There are a dozen states with 100 percent choice, but generation is deregulated. Basically, there is one state that has the model we have here.

We're very unique and the best model, from my perspective, is probably to go back to full regulation like the other 37 states. Pragmatically, we understand that there are customers who feel strongly about preserving some element of choice and that resonates well with some legislators at the same time.

We ought to point out that we would still be the only state in the union with this kind of model.

Q. The group ABATE came out with estimates that the House plan would cost customers \$2.7 billion. Is that number accurate? If not, what is the correct estimate?

A. That number is a lot of baloney, quite frankly. The 21st Century Plan, in its own analysis, said customers were going to save \$4 billion over the long term over what it would otherwise cost if we leave things alone. That's much more of an accurate assessment over the long term.

Q. When you're talking "long term" are you talking 25, 50 years down the road?

A. No, no, not that long. The 15-year time frame.

Q. So what you're saying is that if we pay more in the short term, it will be in the long-term benefit.

A. I'm not even sure how much we're talking about in the short term. We're talking about trying to get a baseload coal plant on line by 2015 and a majority of those costs wouldn't show up in rates until 2015. We're not talking about large increases immediately in rates. We're talking about changing policies that will allow those things to come forward and keep rates lower in the longer term.