

**Testimony of
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Okemos, Michigan
Before the Michigan House of Representatives
Energy Policy Committee
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Lansing, Michigan**

Good morning. My name is Craig Borr and I am the President & Chief Executive Officer of the Michigan Electric Cooperative Association (MECA) in Okemos, Michigan. My thanks to Chairman Nesbitt and the Committee for inviting MECA to testify this morning on Public Act 286 of 2008.

MECA is the statewide trade association for Michigan's 11 electric cooperatives, who collectively serve more than 300,000 homes, farms and businesses in 59 of Michigan's 83 counties [1]. Electric cooperatives are not-for-profit, member-owned and controlled utilities governed by democratically-elected boards of directors comprised of member-customers served by the cooperative.

My comments this morning will be specifically focused on the "Customer Choice & Electricity Reliability Act" portions of Public Act 286 of 2008.

However, before I focus my comments specifically on the electric customer choice portions of the energy reform package approved by the Michigan Legislature in 2008, I believe it is important to point out some guidelines that the Committee should consider when discussing potential changes to any energy legislation.

The electric utility business is a very capital intensive business and one in which certainty plays a critical role. The investments that my member-cooperatives make to safely, reliably and competitively serve their member-customers require certainty. Dramatic changes to any existing energy statutes should be carefully considered knowing that they will impact potential long-term investments being made or contemplated by an electric utility that has a legal requirement to serve the customer.

For example, Michigan's electric cooperatives, while serving less than 10% of the electric load in our state, have invested more than \$1.5 billion in generation, transmission and distribution infrastructure in our state since 2006. Those investments can be made as a result of the 10% electric choice cap that was enacted in the 2008 energy reform package. Simply stated, an assurance that 90% of a utility's sales base will be in place is the basis by which any Michigan utility can make the long-term capital investments necessary to ensure the "lights stay on" for all Michigan customers. The natural gas generation investments made by one of my members, Wolverine Power Cooperative, as well as the natural gas and renewable generation investments made by the state's two largest electric utilities over the past five years is a clear demonstration of that assurance.

Further, the series of energy reform bills signed into law in 2008 were the result of extensive debate and discussion among the Legislature, the utilities, the business community, environmental groups and many others. Due to the long-lead times associated with implementing many of the provisions of the 2008 energy reform package, certain of these changes are just now beginning to evolve and take shape in Michigan's electricity markets.

With those guidelines in mind, I would like to take a few minutes to share MECA's thoughts on electric customer choice. First, as utilities owned by their customers, Michigan's electric cooperatives support the current 10% electric

choice cap that was enacted in 2008. MECA believes competition tends to make an organization perform at a higher level.

Whether it's the local utility, grocery store or gas station, competition requires an organization to change, adapt and perform at a higher level in order to maintain a business relationship with the customer. This introduction of competition into Michigan's electric business model has made Michigan's electric utilities better, financially stronger and more responsive to customer needs.

It has required nearly all of our state's electric utilities to focus more heavily on the two measures that matter most to customers—service and price. In addition, it has led to the elimination of subsidies that had for decades led to rate inequities between the residential and business customers of our state's largest utilities. This deskewing process, or subsidy elimination, has reduced costs for many Michigan business customers.

Finally, several of the provisions contained in the 2008 energy reform package have made our state's two largest utilities financially stronger—and that is good for those utilities and good for Michigan. A quick look at the respective stock prices of our state's two largest electric utilities shows that they have both prospered financially since the current series of energy reforms were put in place in 2008.

Electric competition has also caused Michigan's electric cooperatives to “step up their game” and focus more than ever on competitive costs and service. From competitive long-term contracts with many of our commercial and industrial customers to unique options that include renewable energy features, electric competition has brought innovation and creativity to all of Michigan's electric utilities.

Let me provide you with one example of creativity and innovation within my membership that has come about as a direct result of electric competition here

in Michigan. In 2002, an Alternative Electric Supplier (AES) named Wolverine Power Marketing Cooperative was formed. The idea behind the new cooperative was simple—help Michigan businesses form an organization focused on reducing their electricity costs while using the same principles of transparency, member ownership and democratic governance that has served consumer cooperatives so well all over the world.

Today, Wolverine Power Marketing Cooperative provides electricity under Michigan’s electric customer choice program to a variety of Michigan’s leading businesses and educational institutions by bringing them the economic benefits of competitive electric markets but under a cooperative ownership structure.

The cooperative serves several of Michigan’s best and most recognizable companies. Companies such as Amway Corporation, Dow Chemical, Herman Miller, General Mills and St. Mary’s Cement, among others, have all taken advantage of doing business with an electric cooperative. Electric competition in Michigan has allowed these organizations, and many others, to choose their power supplier, reduce their electric costs and obtain the type of service only available when competition exists.

Later today, St. Mary’s Cement will testify before this Committee on how the company is presently contemplating a \$150+million investment in its Charlevoix Plant and how electric choice is a key consideration in their evaluation. Without the electric choice option to keep a handle on energy costs, St. Mary’s may invest those monies, and the jobs that come with that investment, in a similar cement facility in Illinois, where industrial energy costs are substantially lower. One of your colleagues, Rep. Triston Cole, is well aware of St. Marys’ situation as the Charlevoix plant is a major employer in his district.

Here is the bottom line. The companies served by Wolverine Power Marketing Cooperative comprise a small number of the total customers served by

Alternative Electric Suppliers (AESs) here in Michigan. **However, the handful of companies that receive their electricity through that cooperative employ nearly 30,000 Michigan residents and have reduced their electricity costs by more than \$80 million as a result of competitive electric markets in Michigan.**

Michigan's electric cooperatives support electric competition with the current 10% electric choice cap. It has been good for Michigan businesses and required all of our state's electric utilities to more heavily focus on costs and service—and that is good for our state.

Finally, I need to point out that later today the Committee will be hearing from Mr. Dan Dasho, President/CEO of Cloverland Electric Cooperative in Dafer, Michigan. Mr. Dasho will be testifying on electric customer choice. For the record, I need to point out that his views are solely his own and **do not** represent MECA's position on electric customer choice or the current settlement agreement negotiated by the Snyder Administration in the Upper Peninsula.

I would like to again thank Chairman Nesbitt and members of the House Energy Policy Committee for the opportunity to testify today. I would be happy to answer any questions you may have.

[1] MECA's membership consists of the following: Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-op, Thumb Electric Cooperative, Wolverine Power Marketing Cooperative, and Wolverine Power Supply Cooperative, Inc.

Michigan's electric cooperatives maintain over 36,000 miles of line to serve approximately 310,000 meters. This results in an average of approximately eight customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 90 customers per mile for some municipal systems. As for annual kWh sales per mile of line, the cooperatives average 60,500; the IOUs 725,000; and municipals top the scale at 1,950,000 kWh per mile

per year. Approximately 95% of cooperative customers are residential. Several cooperatives serve a considerable number of seasonal homes and cottages where annual usage is low, but maintenance and the annual cost to serve may be higher.