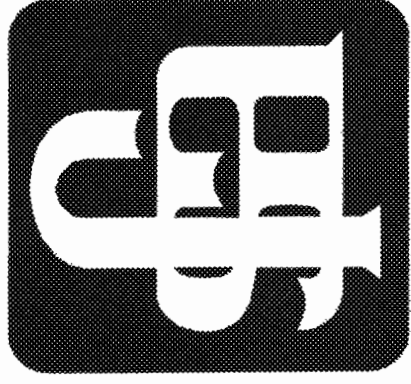


The Future of Electrical Costs in Michigan



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<http://www.senate.michigan.gov/sfa/>

Background Information on Electric Costs in Michigan

Fuel Costs: Appalachian coal was priced this week at \$99.50 a ton. This is up from a cost of \$45 a ton in early 2007. Natural Gas prices have increased by 45% since early 2007.

More than 90% of the coal burned in the United States is used for producing electricity.

These fuel cost increases eventually will be passed on the electric customers in Michigan. These costs are an automatic pass through.

Allegheny Energy Inc. is requesting a 29% rate increase for its customers in Virginia.

The replacement of existing power plants in Michigan with newer, cleaner and more energy efficient plants will also drive up future electric costs in Michigan.

The construction of one new \$1.5 billion coal-fired electrical generating plant will lead to an overall electric rate increase of approximately 5.0% for Detroit Edison and 7.0% for Consumers Energy. These rate increases will cover the construction costs, operating costs, and a return on investment for the companies.

The alternative to increasing electrical generating capacity in Michigan is likely to be the purchase of greater amounts of electricity on the open market. This has the potential of subjecting the purchasers of this electricity to large swings in cost as the cost of purchasing electricity on the open market is volatile. It is unclear whether the approach of building more generating capacity in Michigan or purchasing more electricity on the open market is the best long-term solution for Michigan's electrical energy needs.

It appears that most of the provisions in the House-passed energy package could be accomplished through the existing regulatory structure in Michigan with the approval of the Public Service Commission.

Source: Wall Street Journal, May 7, 2008 and Senate Fiscal Agency

Table 1

| Potential Percentage Increases in Residential Electricity Bills | | | |
|---|----------------|------------------|--|
| Category of Increase | Detroit Edison | Consumers Energy | |
| Current Pending Rate Case | 7.0% | 8.0% to 10.0% | |
| Energy Efficiency Charges-House Bill 5525 | 1.4% | 1.4% | |
| Renewable Energy Charges-House Bill 5549 | 4.4% | 4.6% | |
| Cost Shifting-House Bill 5524 (Over Five Years) | 15.2% | 9.2% | |
| Total Percentage Increase | 28.0% | 23.2% to 25.2% | |
| Average Annual Bill-2009 Estimate | \$911.79 | \$882.45 | |
| Average Increase in Cost | \$255 | \$205 to \$223 | |

These potential cost increases do not include cost increases that the utilities will likely have to pass on the customers dealing with increased fuel costs.

Source: Senate Fiscal Agency, May 7, 2008

Table 2
Potential Percentage Increases in
Commercial Electricity Bills

| Category of Increase | Detroit Edison | Consumers Energy |
|---|-----------------------|-------------------------|
| Current Pending Rate Case | 7.0% | 8.0% to 10.0% |
| Energy Efficiency Charges-House Bill 5525 | 0.8% | 0.8% |
| Renewable Energy Charges-House Bill 5549 | 0.5% | 0.5% |
| Cost Shifting-House Bill 5524 (Over Five Years) | (8.6)% | (5.1)% |
| Total Percentage Increase | (0.3)% | 4.2% to 6.2% |

These potential cost increases do not include cost increases that the utilities will likely have to pass on the customers dealing with increased fuel costs.

Source: Senate Fiscal Agency, May 7, 2008

Table 3

Potential Percentage Increases in Industrial Electricity Bills

| Category of Increase | Detroit Edison | Consumers Energy |
|---|----------------|------------------|
| Current Pending Rate Case | 7.0% | 8.0% to 10.0% |
| Energy Efficiency Charges-House Bill 5525 | 0.0% | 0.0% |
| Renewable Energy Charges-House Bill 5549 | 0.3% | 2.7% |
| Cost Shifting-House Bill 5524 (Over Five Years) | (10.8)% | (3.8)% |
| Total Percentage Increase | (3.5)% | 6.9% to 8.9% |

These potential cost increases do not include cost increases that the utilities will likely have to pass on the customers dealing with increased fuel costs.

Source: Senate Fiscal Agency, May 7, 2008

Table 4

Energy Efficiency Charges
House Bill 5525
(Thousands of Dollars)

| | Calendar Year 2009 Estimates |
|--|---------------------------------|
| Detroit Edison (Electric Revenue)..... | \$4,763,000.0 |
| Consumer Energy (Electric Revenue) | <u>3,450,000.0</u> |
| Subtotal..... | \$8,213,000.0 |
| Surcharge Amount | 0.75% |
| Surcharge Revenue | \$61,597.5 |
| Large Customer Exemptions | 45.0% |
| <u>Remaining Base for Surcharge</u> | |
| Detroit Edison..... | \$2,619,650.0 |
| Consumers Energy..... | <u>1,897,500.0</u> |
| Subtotal | \$4,517,150.0 |
| Percent Cost of Surcharge | 1.4% |

Source: Senate Fiscal Agency calculations based on Public Service Commission data and House Bill 5525

Table 5
Renewable Energy Charges - House Bill 5549
 (thousands)

| Utility | Residential Customers | | Commercial Customers | | Industrial Customers | | Annual Surcharge | Average Increase |
|------------------|-----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|------------------|------------------|
| | Customers | Revenue | Customers | Revenue | Customers | Revenue | | |
| Detroit Edison | 1,977.0 | \$1,609,458.0 | 188.4 | \$1,531,241.0 | 1.1 | \$786,112.4 | \$36.0 | 4.4% |
| Consumers Energy | 1,570.1 | \$1,237,118.4 | 211.7 | \$1,025,758.5 | 8.6 | \$728,925.4 | \$36.0 | 4.6% |
| | | Average Annual Bill | | Average Annual Bill | | Average Annual Bill | | |
| | | \$814.1 | | \$8,127.6 | | \$722,529.8 | \$2,250.0 | 0.3% |
| | | \$787.9 | | \$4,845.3 | | \$84,346.8 | \$2,250.0 | 2.7% |

Source: Senate Fiscal Agency calculations based on Public Service Commission 2006 data and House Bill 5549

Table 6
Potential Cost Shifting Over a Five-Year Period - House Bill 5524
 (thousands)

| Utility | Residential Customers | Residential Revenue | Annual Subsidy | Percent Subsidy |
|------------------|-----------------------|---------------------|---------------------|-----------------|
| Detroit Edison | 1,977.0 | \$1,609,458.0 | \$244,959.5 | 15.2% |
| Consumers Energy | 1,570.1 | \$1,237,118.4 | \$114,127.0 | 9.2% |
| | | | | |
| Utility | Commercial Customers | Commercial Revenue | Annual Subsidy | Percent Subsidy |
| Detroit Edison | 188.4 | \$1,531,241.0 | \$(131,533.6) | (8.6)% |
| Consumers Energy | 211.7 | \$1,025,758.5 | \$(52,108.5) | (5.1)% |
| | | | | |
| Utility | Industrial Customers | Industrial Revenue | Average Annual Bill | Percent Subsidy |
| Detroit Edison | 1.1 | \$786,112.4 | \$(85,057.4) | (10.8)% |
| Consumers Energy | 8.6 | \$728,925.4 | \$(27,990.7) | (3.8)% |

Source: Senate Fiscal Agency calculations based on Public Service Commission 2006 data, rate filing data from Detroit Edison and Consumers Energy, and House Bill 5549