

My View: Electricity monopoly would burden economy

by Gary Wolfram
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Michigan's economy is the worst-performing one in the nation, and the Saginaw area has been particularly hard hit by the state's economic woes.

The potential Hemlock Semiconductor Corp. expansion offers some hope of economic improvement. Originally, tax changes necessary for the Hemlock expansion were tied to a bill, House Bill 5524, which has been referred to falsely as "electricity market reform," but the bill as passed by the Senate removed this connection.

The real purpose of the bill, now in conference committee, is to re-establish the monopolies of Detroit Edison and Consumers Energy by largely ending electric customer choice. The Senate Fiscal Agency estimated that this bill would result in double-digit increases in electric rates for Michigan residential consumers. Its estimate does not include the long-term economic effects of precluding competition.

With the Hemlock legislation now a separate issue, the citizens of Saginaw can without hesitation advise their legislators to vote against killing competition in the electricity industry.

House Bill 5524 guarantees that Detroit Edison and Consumers Energy will retain no less than 90 percent of the market no matter what their rates are, what competitors' rates are or what innovations in energy production are. The long-term effect of stagnating consumer choice will be to raise energy costs, slow the adoption of renewable energy and put an enormous drag on innovation in energy production.

What will the incentive be for competitors to remain in or move to Michigan when they cannot capture the customers of the incumbent utility? What will be the incentive for Detroit Edison and Consumers Power to adopt new cost-reducing technology or to provide power from renewable energy to those customers who desire it?

This bill will harm the economies of Saginaw and the state, perhaps condemning Michigan to double-digit unemployment rates in the future.

The legislation would reserve to Detroit Edison and Consumers virtually the sole right to build and operate power plants. It is little wonder they want a guarantee that customers will be forced to pay for their power plants -- the last time these companies built new power plants their cost overruns were \$4 billion and \$5 billion, respectively.

Can anyone seriously believe that denying businesses and consumers a choice in electricity will improve the efficiency of Detroit Edison and Consumers Energy and keep the costs of new plants down?

Detroit Edison and Consumers Energy argue they can't get financing for new plants without legislation that prevents customers from choosing a lower price supplier.

This speaks volumes about how investors may feel about the efficiency of these companies. Why is it that utility companies and independent power developers in other states are finding financing for new power plants and innovating in renewable energy in competitive markets?

Michigan's economy will prosper when it is less expensive to produce here than in other places. Market competition drives down prices and increases efficiency as competitors strive to earn profit. The introduction of electricity competition in 2000 reduced electricity prices in Michigan, bringing them below the average of the 10 largest states.

This progress was substantially impaired by the imposition in 2004 of "stranded cost" recovery that required customers of alternative electricity suppliers to make payments to Detroit Edison and Consumers Energy. True electricity market reform would focus on the stranded cost issue and encourage even more energy competition, not tie customers to a monopoly power provider.

The Legislature should reject HB 5524 and begin again with new legislation, such as that suggested in a major report by the Mackinac Center that focuses on improving consumer choice and the incentive for companies to innovate.

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