



Testimony of Universal Gas & Electric Corporation

Honorable Frank Accavitti and committee members
House Committee on Energy and Technology

December 20, 2007

The opportunity to testify before you today on House Bills 5520 through 5525 is greatly appreciated. I am Gary L. Field, the principal attorney in the Field Law Group. We represent **Universal Gas & Electric Corporation**, a subsidiary of Universal Energy Corporation, a publicly traded company headquartered in Toronto.

- Universal offers alternate natural gas and alternate electric supply in Canada
- In Michigan, Universal entered the natural gas Choice market in March of 2006.
- In the 20 months since, Universal has opened 5 offices in the state, brought over 250 jobs to Michigan, injected over \$10 million dollars in the economy through payroll and commission payments, and enrolled over 100,000 gas customers into the Gas Choice Program.
- Most of Universal's customers are residential customers. These customers will see no increase in the amount they pay for natural gas commodity for five full years.
- Universal desires to bring the same benefits to Michigan Electric customers as it has brought to Michigan gas customers. Universal has an application pending before the MPSC to become licensed as an alternative electric Supplier. Hopefully, the license will be issued in January.
- Several times during these hearings, statements have been made that no residential customer has enjoyed the benefit of Electric choice since Act 141 was adopted. However, within weeks, that statement will no longer be accurate. Unless this Legislature eliminates Electric Choice or unduly restricts it, Universal could be offering alternate electric supply to residential customers in this State hopefully by February.
- Universal has significant experience providing reliable electric service to the residential market. Currently, Universal provides electricity to over 140,000 residential customers in Ontario.
- Universal also plans to start rolling out residential Electric Choice service in New York and Texas within the next few months.
- As an alternate gas and energy supplier, Universal's emphasis has and will continue to be the residential market.
- Universal offers options, such as price stability, to consumers that the utilities cannot offer.
- However, the uncertainty created by the Legislature by HB 5524, which would severely restrict Choice, creates a disincentive and is causing Universal to reconsider whether it should invest in Electric Choice in Michigan. The more prudent decision may be to invest in states that welcome the energy that Alternate Electric Suppliers offer, such as Illinois.
- In the last few weeks Universal's gas sales field staff have asked residential customers whether they would sign a petition supporting electric competition and their right to choose an alternative electric provider.



- Here are over 8000 people who have done just that...said they oppose efforts to kill electricity choice competition and take away their rights; as well efforts to increase their electricity rates effective even before any power plant is built.
- One of the main criticism of Electric Choice is that purportedly not enough people have benefited from it. However, it must be emphasized that no customer has been harmed by the availability of Electric Choice. In fact, the customers that have chosen Choice have experienced significant cost savings. Even the customers that stayed on the Utilities' systems have enjoyed benefits from the availability of Electric Choice. Consumers Energy and Detroit Edison have had to keep their rates at reasonable levels to protect against an exodus of customers. But, now both Utilities are seeking approval of above-market rate increases from the Michigan Public Service Commission. Therefore, it is important to the Utilities to eliminate or restrict Choice so that they can force customers to remain with them without having to address marketplace pressures.
- The Legislature needs to encourage and fortify Electric Choice, not destroy it, in order to keep electricity rates in Michigan competitive.
- Electric Choice can make significant contributions to the growing energy needs of this State and Universal is ready and able to be part of the solution.
- Also, I would like to point out, that attached to this testimony is a lengthier and broader discussion of the topic of Electric Choice, which has been prepared by Mr. Jonathon Drummond, Director, Commercial and Regulatory Affairs

Thank you for your time.

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To Michigan Legislators:

Who wants to strangle Electric Choice in Michigan? The answer is instructive.

Legislators and interest groups are holding meetings and openly discussing draft legislation that would end consumer Electric Choice in Michigan. The two main players behind this most recent bid to eliminate a competitive electric market in Michigan also happen to be the two largest electric providers in the state, The Detroit Edison Company and Consumers Energy. After an unsuccessful media and political campaign to end Electric Choice in 2004, these utility giants have regrouped and are promoting “new and improved” reasons to return Michigan to the days of electric monopoly. Of course, these two companies have the most to gain if Michigan consumers lose Electric Choice..

The law introducing Electric Choice in Michigan was signed in 2000, and came into effect starting in early 2002. By 2004, Detroit Edison was already heavily involved in lobby efforts to convince Michigan lawmakers and ratepayers that they had made a mistake. DTE Energy Chairman and CEO Anthony Earley said, “We know customer choice doesn’t work, so let’s get rid of it and move on to the future.” Consumers Energy CEO David Joos maintained “[The] repeal of the choice provisions of P.A. 141 is Michigan’s best course of action.” <http://www.senate.mi.gov/dem/Newsletters/14/041307.pdf>) Detroit Edison and Consumers Energy arguments to kill choice in 2004 mainly played on fear generated by the market collapse in California a few years earlier. They also threw in the argument that they were losing money during the transition to competitive Electric Choice. Such a financial motive is noticeably absent in the newest campaign to repeal Electric Choice in Michigan.

Now in 2007, consumers in Michigan are expected to have forgotten the unconvincing arguments given in 2004, arguments the utility companies are not recycling. The new reasons to kill Electric Choice are, not surprisingly, based on updated public anxieties about energy supply. The new argument is that if companies and residences can opt to buy their electric supply from Alternative Energy Suppliers (AES), Consumers Energy and Detroit Edison will not know how much electric generating capacity to build to meet an increasing need.

Does anyone really believe that Michigan will descend into darkness if a healthy electric market develops? In reality, there is no need to know exactly how much electricity to generate. Both Detroit Edison and Consumers Energy currently sell any excess power they generate into the wholesale market, and buy from other states to cover any shortfalls in supply. In other words, a fluid wholesale electric market exists which enables power to be managed and transmitted to wherever the need for power exists. And as long as a demand for increased generation exists, free market principles ensure that such capacity will be built.



The last time DTE built a coal-fired plant in Michigan was in 1985. The last large coal-fired power plant that Consumers Energy built in Michigan was in 1980. (<http://www.freep.com/apps/pbcs.dll/article?AID=/20070915/BUSINESS06/709150312/1002/BUSINESS>) The fact that monopoly electric utilities do not respond quickly or efficiently to their customers' needs was exactly the reason why Electric Choice was introduced in the first place.

Another reason the enemies of competition give for severely restricting Electric Choice in Michigan is that a large percentage of customers have not chosen alternate electric suppliers, and that number has declined recently. However, no customer has been harmed by the availability of Electric Choice. In fact, the customers that have chosen Choice have experienced significant cost savings. Even the customers that stayed on the Utilities' systems have enjoyed benefits from the availability of Electric Choice. Consumers Energy and Detroit Edison have had to keep their rates at reasonable levels to protect against an exodus of customers. But, now both Utilities are seeking approval of above-market rate increases from the Michigan Public Service Commission. Therefore, it is important to the Utilities to eliminate or restrict Choice so that they can force customers to remain with them without having to address marketplace pressures.

Rather than asking "how can we improve Electric Choice," the old monopolies want us to ask "how can we eliminate or restrict Electric Choice?" So why is Michigan's Electric Choice program not as strong as it should be? Well, for one thing, every time DTE and Consumers campaign to end the choice program, it creates an uncertain environment. Nobody can dispute that the former monopolies carry a lot of weight. When they spend millions to lobby the Michigan authorities to repeal Electric Choice and to place misleading advertisements on television, potential electric suppliers are discouraged from entering the market.

A case in point: Universal Gas & Electric, a successful alternate gas supplier in the Michigan market, has been considering selling electricity in Michigan at capped rates to residential and other low-volume electric customers, but decided not to proceed in good faith to its shareholders while the draft legislation to completely kill choice was pending. More current draft legislation that provides a 90 window to sign of customers is not much better because it continues to project policy of hostility to Electric Choice. One company like Universal Gas & Electric can make a big difference to the overall market. Universal entered the alternate gas market in Michigan in March of 2006. In April 2007, Universal began offering alternate gas service to residential customers in Michigan. Universal's entry into the Michigan alternate gas market has been very successful. Since April of this year, Universal has enrolled over 100,000 residential customers in its program, generated hundreds of high-paying jobs, and injected over \$10 millions in payroll and commissions into Michigan's economy. Universal would like to make similar contributions to the electric marketplace in Michigan, but it may be more prudent for Universal to devote its resources to other states like New York and Texas that are friendly to Electric Choice and where in light of the current regulatory uncertainty does not exist.

A competitive market provides great incentive for building power generation. Companies can bid to build power plants without captive customers to assume the risk of building such facilities. Consumers Energy has promised to build a big new electric plant, but only if they are guaranteed a captive market,



and if all their customers start paying for it long before it is built. In less than a year, Consumers Energy's own estimate of the plant's cost has already increased by over 40% and the project hasn't even started yet. Such cost overrun provides a glimpse into the future if Michigan kills or strangles competitive Electric Choice.

Michigan ratepayers have given a very clear indication that they know Electric Choice is beneficial. In a few short weeks over 8000 customers have signed a petition endorsing Electric Choice in Michigan. Competition will provide a cheaper and cleaner power supply if Michigan uses a transparent bidding process for generation projects.

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