

Electric Choice Question 26: *What impact, if any, has there been on the rates paid by Michigan residential customers as the result of Michigan’s electric choice program?*

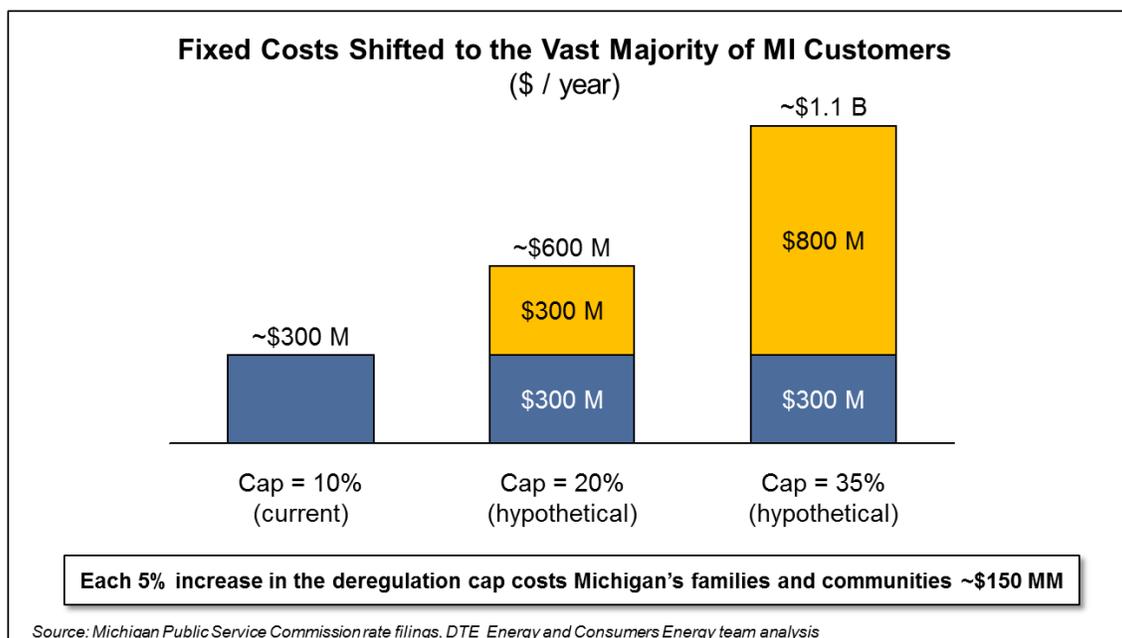
**Executive Summary**

Michigan is the only state to offer a regulated rate option supported by utility-owned generation for the majority of customers and an essentially free option to switch to electric choice (retail access) for a very small number of customers. Other jurisdictions have stricter rules limiting customers’ ability to switch between regulated and deregulated generation rates in order to avoid the problem of subsidization by other customers.

1. The costs of this free option for a very limited number of Michigan customers (less than 1% of customers) have been borne unfairly by the other utility customers, including all residential customers. An increase in the cap, currently 10% of load, would unfairly shift even more of the cost burden onto the full service utility customers
2. When utility customers, particularly residential and small business customers, understand this subsidization, they tend to not support an increase in the cap

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More than 99% of Michigan’s customers currently pay ~\$300 million per year to support the fixed costs of generation for those on retail access, effectively providing a subsidy to a very small number of customers. The current cost equates to a ~4% impact on utility customer rates. A 35% cap would increase that burden by ~\$800 million.



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Utility customers are required to pay the fixed costs needed to ensure the reliability of the electric system, while the retail access customers get a "free ride".

*"Reliability cannot generally be differentiated between those customers who are willing to pay for higher reliability and those who are not willing to pay for such reliability. This creates a "common good" [public good] problem that invites "free ridership" by customers...who hope to benefit from high reliability paid for by the common pool of market participants without incurring such payments themselves."*

*Source: The Brattle Group: "A Comparison of PJM's RPM with Alternative Energy and Capacity Market Designs", September 2009  
([http://www.brattle.com/\\_documents/uploadlibrary/upload807.pdf](http://www.brattle.com/_documents/uploadlibrary/upload807.pdf))*

**2. When utility customers, particularly residential and small business customers, understand this subsidization, they tend to not support an increase in the cap.**

Some surveys have asked residential and small business customers about the possibility of restructuring that results in slightly higher rates for residential and small business customers (who tend not to participate in retail access), but lower rates for large business / industry (those who do participate in retail access) – with the explicit qualification that lower industry rates might help improve the state's economy. Even with this qualification, residential and especially small business customers strongly opposed this outcome and ranked it as the least desirable outcome of restructuring.

See Electric Choice Question 12 for details on these survey results.