

**STATUS OF ELECTRIC COMPETITION
IN MICHIGAN**

February 1, 2003

MICHIGAN PUBLIC SERVICE COMMISSION
Department of Consumer & Industry Services



STATE OF MICHIGAN
PUBLIC SERVICE COMMISSION
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES

Jennifer M. Granholm
GOVERNOR

February 3, 2003

Honorable Jennifer Granholm
Governor of Michigan

Honorable Members of the Senate Technology and Energy Committee
Secretary of the Senate

Honorable Members of the House of Representatives Energy and Technology Committee
Clerk of the House of Representatives

The enclosed annual report, *Status of Electric Competition in Michigan*, is submitted on behalf of the Michigan Public Service Commission (MPSC) in accordance with Section 10u of 2000 PA 141, MCL 460.10u. This report will be available on the MPSC Web site.

As you know, electric restructuring in Michigan was created in response to Michigan's relatively high electric rates that, in large part, stifled economic development in the state. Indeed, the explicit goals of the Customer Choice and Electric Reliability Act include fostering competition, improving the opportunities for economic development, and promoting financially healthy and competitive utilities in Michigan.

During 2002, competition in Michigan's electric markets continued to expand. The Commission issued 39 orders to further establish the framework for Michigan's Retail Open Access Program (ROA), and implement the provisions of Act 141. Highlights of the report include:

- Over 5,700 customers are now participating in Michigan's ROA, almost doubling since 2001.
- The Commission has licensed 25 alternative electric suppliers.
- In 2002, 2,286 megawatts (MW) of new in-state electric generation capacity became operational in Michigan.
- All investor-owned electric utilities in Michigan joined multi-state Regional Transmission Organizations (RTO's).
- Transmission capacity was increased by 2,000 MW in 2002.

Laura Chappelle, Chairman • David A. Svanda, Commissioner • Robert B. Nelson, Commissioner

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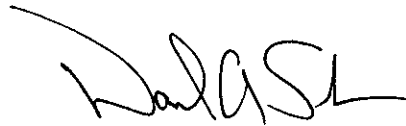
- . National events continued to impact the progress of Michigan's development towards electric competition.

Development of a robust competitive market with full customer protection was a high priority for the Commission during the second year of fully open retail electricity markets in Michigan, and will continue to be so in 2003. Market development through 2003 should provide the Commission with a greater understanding of the components that can enhance market competition in support of the purposes of Act 141, including supporting healthy Michigan utilities. The Commission will apprise the Governor and the Legislature of any developments that may require action.

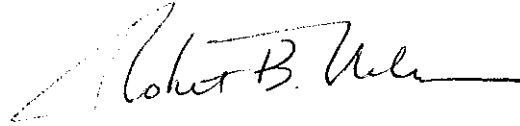
Sincerely,



Chairman Laura Chappelle



Commissioner David A. Svanda



Commissioner Robert B. Nelson

Executive Summary

The Michigan Legislature began the process of restructuring the State's electric industry with the enactment of 2000 PA 141, the "Customer Choice and Electricity Reliability Act," which took effect on June 5, 2000 (MCL 460.10 et seq.). An important policy goal of Act 141 is to introduce competition into the electric industry by offering Michigan customers the opportunity to choose to purchase their electric generation services from an alternative electric supplier (AES). The prices charged for AES services are not regulated. Act 141 requires the Commission to submit a report by February 1 each year to the Governor and Legislature, on the Status of Electric Competition in Michigan. The Staff of the Michigan Public Service Commission has written this report and is solely responsible for its contents.

This report shows the impacts of Commission actions and state law are already being felt. Electric competition in Michigan continued slow but steady progress through 2002. Significant additional in-state generation is already in place, and more is under construction. Transmission system enhancements required by 2000 PA 141 were completed by Consumers Energy. The Commission is awaiting submittals by American Electric Power, Detroit Edison, and Great Lakes Energy Cooperative, to verify completion of transmission enhancements. Regional transmission organizations are in place and operations have commenced for most Michigan utilities. Disclosure requirements now provide for customers to receive standardized information about fuel-mix and environmental emissions from their electric service provider. The number of customers choosing alternative suppliers has continued to increase, roughly doubling in 2002 to a total of over 5,700 customers and 1,600 MW.

Conclusions

- Electric competition in Michigan continued slow but steady progress through 2002, with the number of customers participating roughly doubling since year-end 2001.
- The number of licensed Alternative Electric Suppliers (AESs) more than doubled between year-end 2001 and 2002, from 12 to 25.
- Transmission capacity into Michigan was increased by 2,000 megawatts (MW) by mid-2002.
- All of Michigan's investor-owned electric utilities have now joined multi-state Regional Transmission Organizations (RTOs) approved by the Federal Energy Regulatory Commission (FERC). The Midwest Independent System Operator (ISO) now covers 15 states from Appalachia to the Rocky Mountains and part of Canada.
- In 2002, a total of 2,286 MW of new, in-state, non-utility electric generating capacity began operation in Michigan.
- The Commission issued 39 orders in 2002 related to implementation of 2000 PA 141 and Retail Open Access (ROA). Two additional orders adopted securitization bond and tax change true-up adjustments for Michigan's two largest electric utilities. The two utilities continue to collect these charges pursuant to 2000 PA 142.
- National events continued to impact the progress of Michigan electricity competition.

While the Commission believes it has taken significant steps toward achieving competitive electricity markets, a continued effort is required. Further market development in 2003 and beyond should provide the Legislature and Commission with a better understanding of what will be necessary to reach that goal.

Introduction

The Customer Choice and Electricity Reliability Act (2000 PA 141) requires the Public Service Commission (Commission) to file a report with the Governor and the Legislature by February 1 of each year. The report is to include a discussion of the following topics, and is organized this way:

- (a) The status of competition for the supplying of electricity in Michigan.
- (b) Recommendations for legislation, if any.
- (c) Actions taken by the Commission to implement measures necessary to protect consumers from unfair or deceptive business practices by utilities, alternative electric suppliers (AESs), and other market participants.
- (d) Information regarding customer education programs, approved by the Commission, to inform customers of all relevant information regarding the purchase of electricity and related services from alternative electric suppliers. [2000 PA 141, Section 10u; [MCL 460.10u](#)]

I. Status of Competition for Supplying Electricity

A. Introduction

Full open access for all customers of Michigan investor owned utilities took effect on January 1, 2002.¹ This was the second full year of operation under 2000 PA 141. Throughout 2002, there was continued growth in the number of customers and suppliers participating in competitive electricity markets in both Consumers Energy and Detroit Edison service territories. Together, these two companies provide service to almost 90 percent of the state's electric customers. There was still no electric choice activity in other Michigan utility service territories by the end of 2002.

B. Alternative Electric Suppliers (AESs)

By the end of 2002, there were 25 licensed AESs in Michigan. Twelve of these were approved prior to or in 2001. Eight more were approved in the first half of 2002, and five more in the second half of the year. Three more applications submitted in 2002 are still pending. Attachment I is the directory of licensed AESs as of year-end 2002.

By the end of 2002, there were four AESs serving commercial and industrial customers in Consumers Energy and twelve in Detroit Edison territory. That compares to two AESs serving customers in Consumers Energy territory and four in Detroit Edison territory at the end of 2001. All four AESs now serving customers in Consumers Energy territory were also

¹ The schedules for implementing customer choice are different for cooperative electric utilities and municipal electric utilities. Cooperatives are not required to provide retail choice before January 1, 2005, except for customers with a peak load of 1 megawatt or greater, who have been provided the opportunity to choose an alternative supplier starting January 1, 2002 (see 2000 PA 141, Section 10x(1); [MCL 460.10x\(1\)](#)). Municipal utilities are not regulated by the MPSC. Under 2000 PA 141 Section 10y ([MCL 460.10y](#)), "The governing body of a municipally owned utility shall determine whether it will permit retail customers receiving delivery service from the municipally owned utility the opportunity of choosing an alternative electric supplier..." Timelines for municipal electric utilities to offer retail choice are described in Section 10y.

active in Edison Detroit territory in 2002. In late 2002, one additional AES started to enroll Detroit Edison customers and another started to enroll Consumers Energy customers, but they did not begin serving their first customers until early 2003.

C. Load Served by the Retail Open Access Programs

There are currently three active open access programs in Michigan. Consumers Energy has one program in its service territory and Detroit Edison has two. The programs are discussed below.

1. Consumers Energy Electric Customer Choice

Consumers Energy's Retail Open Access (ROA) program was established by Commission orders and 2000 PA 141. Table 1 shows the numbers of customers and their electricity demand in megawatts (MW) served by each AES in the Consumers Energy ROA program, at the end of 2001 and 2002. The ROA load served in Consumers Energy's service territory at year-end 2002 is 473 MW. The number of customers served in Consumers' ROA program grew at an average annual rate of 71% in 2002, and the number of MW grew by 109%.

For Consumers Energy customers, nearly 5% of commercial sales and about 12% of industrial sales are presently met through ROA. By customer class, the mix is almost exactly 1/3 commercial and 2/3 industrial. There is no residential customer participation in the Consumers Energy service territory at this time.

Consumers Energy previously had an experimental open access program, called Direct Access (DA), which is no longer available.

Table 1: AES Customers in Consumers Energy Service Territory, Year End

AES Name	Number of Customers		MW Served	
	2001	2002	2001	2002
Nicor/EMC		87		25
Nordic Electric		4		25
Quest	327	467	217	380
Wolverine Power	2	5	9	43
Totals	329	563	226	473

2. Detroit Edison Experimental Retail Access Program

This Detroit Edison program is limited to 90 MW of load. The first customer started taking service on December 6, 1999. As of December 2002 there was a total load of 68.3 MW, representing one customer being served by one alternate supplier. Participating customers were initially selected by lottery. The program is scheduled to end on June 30, 2004.

3. Detroit Edison Electric Choice Program

Detroit Edison's ROA program was established by Commission orders and 2000 PA 141. Table 2 (p. 5) shows the numbers of customers and capacity in MW served by each AES in the Detroit Edison ROA program, at the end of 2001 and 2002. As of year-end 2002, there was a total load of 1,138 MW being served by non-Detroit Edison generating sources. This includes 261 MW at the Dearborn

Industrial Generation (DIG) project.² The number of customers served in Edison's ROA program grew at an average annual rate of 159% in 2002, and the number of MW grew by 132%.

Sales levels of customers opting for the ROA program are presently estimated at 14% of Edison commercial sales (measured in kWh) and between 5% and 10% of Edison industrial sales, depending on the classification of the DIG load. By customer class, approximately 45% of ROA sales are to industrial customers and 55% to commercial customers. Residential customer participation is negligible.

In summary, AES and customer participation in the three active programs grew substantially in 2002. Approximately 7% of statewide peak load is now being served through electric open access. Figure 1 (p. 6) presents data for the most recent 18 months for Consumers Energy's Electric Customer Choice program and Figure 2 (p. 7) presents the same data for Detroit Edison's Electric Choice program.³ Demand for these two programs, in megawatts, has roughly doubled each year since 2000.

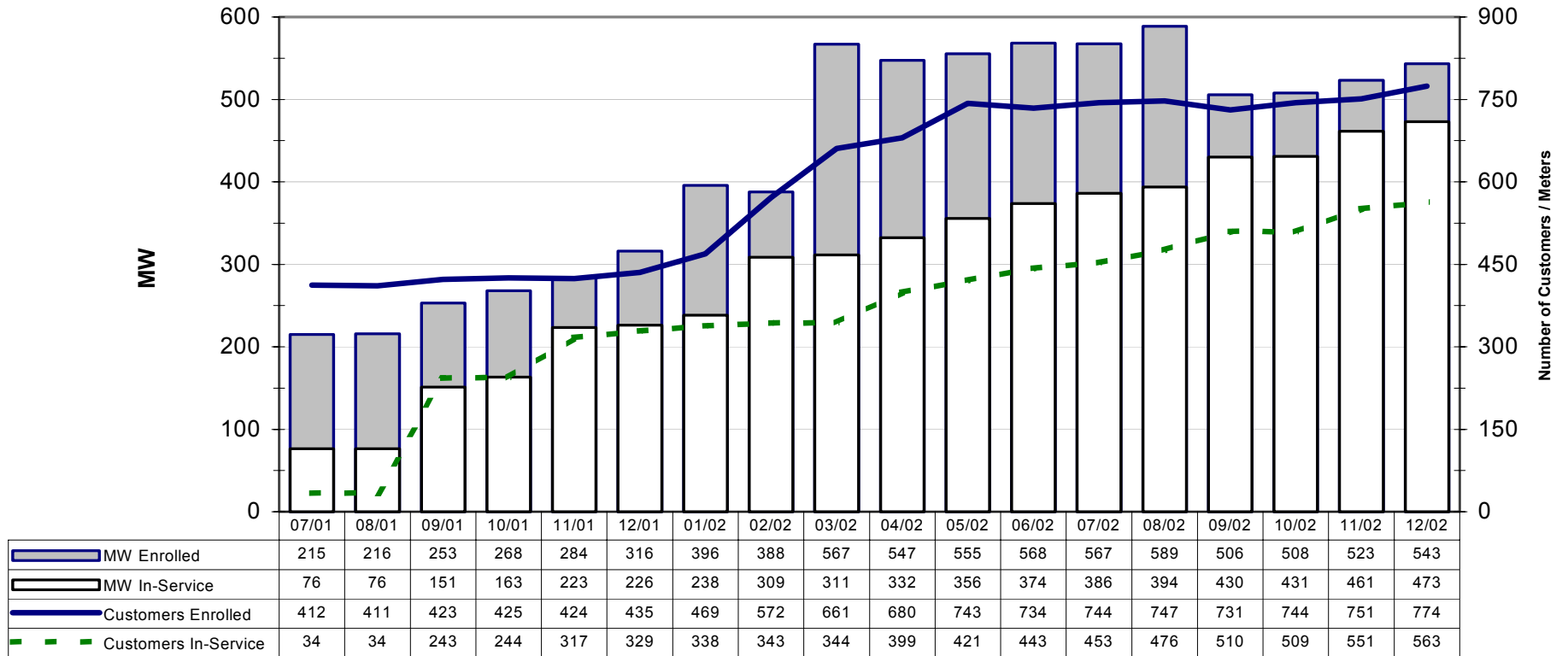
² The status of the Dearborn Industrial Generation, L.L.C. (DIG) facilities and customers being served by DIG is presently being litigated in Case No. U-12980, which is awaiting a Commission decision. In that case, customers being served in part by electricity generated by DIG filed a complaint, asking for a determination that "power generated by DIG and consumed at the Rouge Complex is 'self-service power'...and ordering Edison to cease requiring...Retail Access Service Tariff charges..." (Complaint of Ford Motor Company and Rouge Steel Company Against the Detroit Edison Company, p. 18).

³ Data on Detroit Edison's experimental retail access program is not included in either Table 2 or Figure 2.

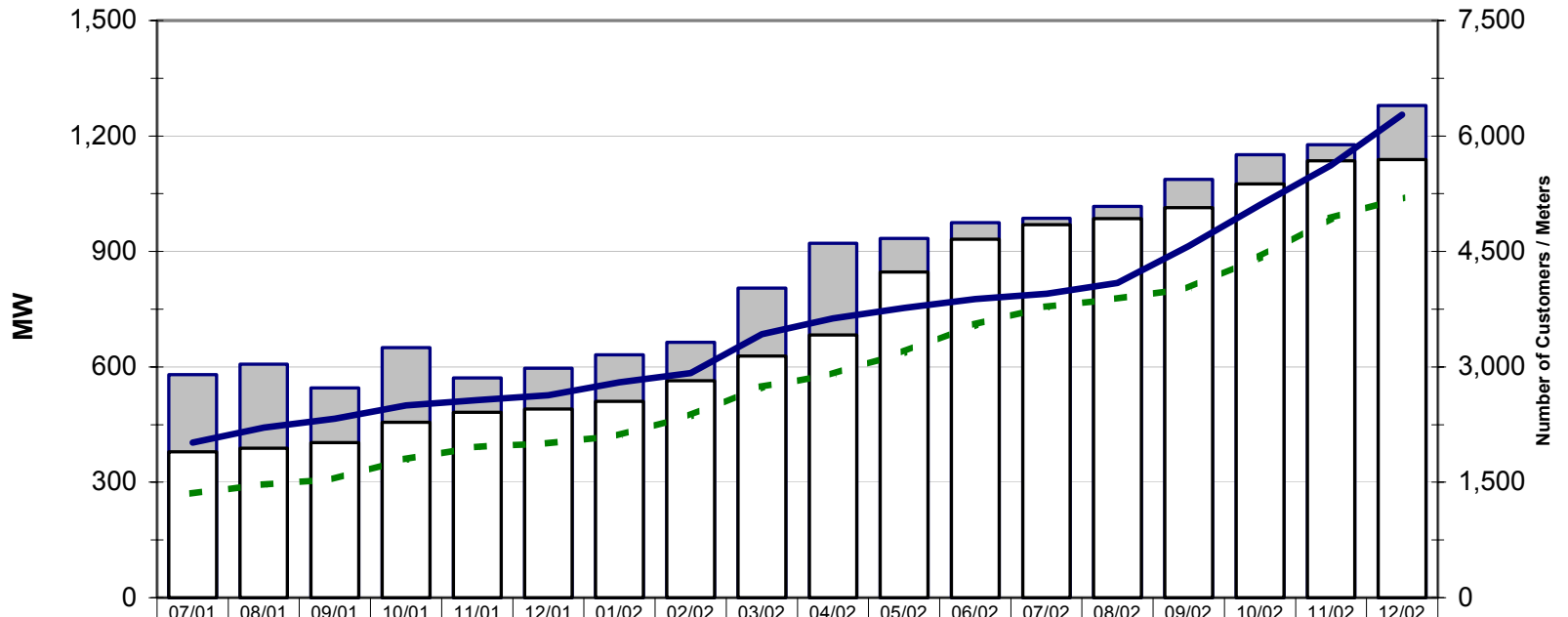
Table 2: AES Customers In Detroit Edison Service Territory, Year End

AES Name	Number of Customers		MW Served	
	2001	2002	2001	2002
CMS MS&T		499		94
CMS MST Michigan, LLC	11	11	261	261
Cook Inlet		9		86
ElectricAmerica		953		35
Energy International		73		5
FirstEnergy Solutions		5		3
Metro Energy		2		13
Nicor/EMC	246	1,012	18	169
Nordic Electric	1,159	1,312	77	107
Quest	620	1,287	141	325
Sempra		33		26
Wolverine Power		2		13
Totals	2,026	5,198	497	1,138

**Figure 1: Consumers Energy Electric Customer Choice Program Activity
(Cumulative Numbers of MW & Customers/Meters, Enrolled & In-Service, by Month)**



**Figure 2: Detroit Edison Electric Customer Choice Program Activity
(Cumulative Numbers of MW & Customers/Meters, Enrolled & In-Service, by Month)**



MW Enrolled	580	607	545	650	571	597	631	663	804	921	934	975	987	1,017	1,087	1,151	1,178	1,280
MW In-Service	379	389	403	456	482	490	510	564	628	683	847	932	970	985	1,014	1,075	1,135	1,138
Customers Enrolled	2,016	2,212	2,325	2,502	2,567	2,632	2,797	2,922	3,422	3,631	3,768	3,880	3,949	4,093	4,570	5,106	5,622	6,277
Customers In-Service	1,355	1,468	1,543	1,801	1,961	2,007	2,110	2,368	2,742	2,907	3,194	3,552	3,782	3,886	4,025	4,427	4,933	5,198

II. Electric Supply Infrastructure Serving Michigan

A. Transmission System Expansion

As required by 2000 PA 141, regulated Michigan utilities serving more than 100,000 customers in Michigan were to submit a plan to increase the availability of transmission capacity into Michigan by 2000 MW by mid-2002. Detroit Edison, Consumers Energy, American Electric Power and Great Lakes Energy Cooperative filed compliance plans and a hearing was commenced to resolve differences in the plans. Subsequent to resolution of plan differences by stipulation, on November 20, 2001 the Commission issued an order in Case Numbers U-12780 and U-12781 closing the dockets. The Commission concluded that the stipulation to a Joint Plan removed the basis for conducting a hearing on the Plan.

The Commission stated, in an order issued in July 2002, that the projects identified in the Joint Plan are, for purposes of compliance with 2000 PA 141, reasonable and prudent. Further, the Commission maintained that when the utilities have completed all projects in the Joint Plan and submitted verification of that completion, the Joint Plan will be in compliance with 2000 PA 141. On December 6, 2002, Consumers Energy filed verification that its projects had been completed. Verification submittals by American Electric Power, Detroit Edison and Great Lakes Energy Cooperative are awaited. The Commission's July 23, 2002 order states that cost recovery beyond that authorized by FERC will be in a manner consistent with 2000 PA 141.

B. Regional Transmission System Activities

Under 2000 PA 141 all investor-owned electric utilities in Michigan are required to join a FERC-approved Regional Transmission Organization (RTO) or divest transmission assets to an independent transmission owner. FERC and the Michigan Public Service Commission have created a regulatory structure that supports a more competitive and efficient U.S. power industry, which should result in lower electricity bills and alternative service options for all customers.

On December 20, 2001, FERC approved the Midwest Independent System Operator (ISO) as the nation's first RTO. It covers 15 states from Appalachia to the Rocky Mountains, and stretches into part of Canada.⁴ Owners of transmission assets that serve customers of Michigan utilities have joined the Midwest ISO. For the most part, owners of transmission assets that historically have served Michigan customers have both divested the assets to independent transmission companies and joined an RTO. The transmission systems of Consumers Energy, Detroit Edison, Wisconsin Electric Power Company, Wisconsin Public Service Corporation, Upper Peninsula Power Company, Edison Sault Electric Company and Wolverine Power Supply Cooperative are all now under the Midwest ISO umbrella. American Electric Power Company has elected to join the more easterly PJM Interconnection RTO.

On February 1, 2002, Midwest ISO began its role in scheduling the use of transmission assets. The detailed design of the market system for the Midwest ISO was completed

⁴ See the Midwest ISO Web site, at <http://www.midwestiso.org/>.

November 30, 2002. The Midwest ISO operations building and construction of its system have begun and development testing is scheduled for completion by August 2003. Participant registration will start in the second quarter of 2003. The Midwest ISO is scheduled to be fully operational by December 2003.

FERC, in a November 22, 2002 order approving some Midwest ISO rate schedules, said it expects the Midwest ISO to push vigorously to develop compatible wholesale markets.⁵ In December 2002, the Midwest ISO filed market rules and proposed market power mitigation measures.⁶ The proposed mitigation measures were developed by the Midwest ISO's Independent Market Monitor (IMM), Dr. David Patton, to be fully consistent with the market power mitigation principles set forth in the recent FERC Notice of Proposed Rulemaking (NOPR) on Standard Market Design (SMD).⁷ The mitigation measures are designed to be fully consistent with the preservation of efficient prices and investment incentives. They will not prevent market prices from rising to marginal cost, but will prevent a seller that has market power during transmission congestion and high load conditions from exploiting its market power to drive prices to artificially inflated levels. The Midwest ISO is seeking expedited action addressing the relief sought in these filings to further facilitate efforts to implement the Midwest ISO and promote a competitive wholesale electricity market throughout the Midwest region.

Utilities and others have capitalized on the opportunities the new market structures are creating by organizing their assets more efficiently. In May 2002, Trans-Elect completed the first independent purchase of a transmission system in the U.S., when it took ownership of CMS Energy's Michigan Electric Transmission Co. In late December, Trans-Elect also joined the transmission grid-sharing arrangement of the Midwest ISO. Trans-Elect now includes transmission assets that were formerly owned by several utility companies who had originally planned to join the Alliance RTO. The proposed Alliance RTO structure did not meet FERC standards for RTO approval, so those utilities were required to join an approved RTO, such as Midwest ISO or PJM. In November, DTE Energy announced it had signed a definitive agreement to sell its transmission business subsidiary, International Transmission Company (ITC). On December 6, 2003, the Commission approved an application for various approvals related to this agreement, including a 50/50 sharing of proceeds between ratepayers and stockholders. Shortly, Michigan is expected to become the first state to have transmission for virtually all its electric utility customers managed by independent electric transmission system operators. Most industry experts regard this as a significant development, advancing a more favorable competitive infrastructure.

The Midwest ISO and the PJM Interconnection (which operates a transmission grid for mid-Atlantic states) are working with the Southwest Power Pool to form a combined market which will stretch across more than 25 U.S. states and part of Canada. These transmission operators are presently working to resolve seams⁸ issues and determining the fees to be charged for power flows that utilize various segments of both grids. They are attempting to create a cost-of-service formula for rates that will reasonably allocate costs to those who benefit from moving power over the various transmission owners' systems.

⁵ 101 FERC ¶ 61,221, 2002.

⁶ EL03-35 MISO for market rules and ER02-2595-001 MISO for proposed market power mitigation measures.

⁷ See FERC web site about SMD at <http://www.ferc.fed.us/Electric/rto/Mrkt-Strct-comments/smd.htm>.

⁸ The term "seams" refers to boundaries between utilities or RTOs that have different market rules or pricing systems, thus impeding the economic flow of power from one region to another. See FERC SMD (fn. 7).

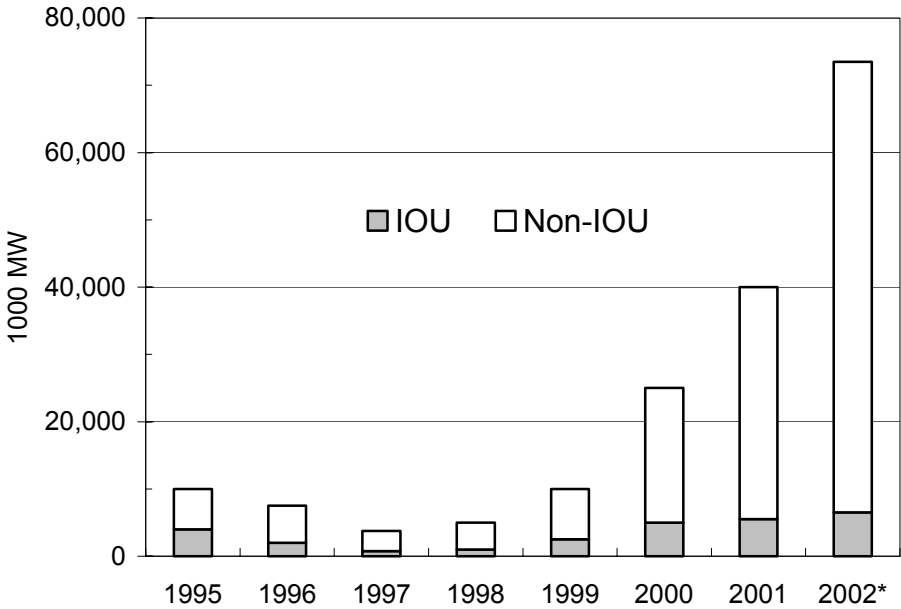
FERC is also working to stitch together the nation's patchwork transmission grid with the SMD rules it wants to finalize in 2003. The interstate transmission system will continue to be under FERC jurisdiction. The Michigan Public Service Commission continues to have a major role working with FERC on oversight of independent transmission operators and is providing assistance with crafting national SMD rules to promote competitive wholesale markets for electricity.

C. Generating Plant Additions

In 2002, 2,286 MW of non-utility generating capacity was completed and began operating in Michigan. This is in addition to the nearly 3,000 MW of both utility and non-utility capacity completed in 1999 thru 2001. The largest new facility completed in 2002 was the 550 MW generator at Jackson, owned by Kinder Morgan. Attachment II includes one table listing the 2002 capacity additions, and a second table showing capacity additions in 1999, 2000, 2001, and 2002 and planned for 2003.

Figure 3 shows the substantial growth of new generating capacity added in the U.S. since 2000. The additions by companies that are not investor owned utilities (IOUs) are particularly noteworthy.

Figure 3: Added U.S. Generating Capacity



Source: GAO analysis of PowerDAT data provided by Platt's/RDI
 *Additions through July 2002

While there is no requirement for new power plant construction to be reported to the MPSC, the Commission and its Staff have, on a best efforts basis, compiled a list of proposed additions. These additions are identified in three categories. These categories are “under construction” with 1,170 MW, “in permitting” with 2,455 MW and “announced but delayed” with 8,170 MW. This totals 11,795 MW. Attachment III is a table of the proposed additions.

In summary, Michigan has experienced the addition of approximately 5,300 MW of utility and non-utility generating capacity since 1999 and 1,170 MW of additional in-state capacity is currently under construction. Completion of these additions will result in 6,470 MW of new generating capacity in Michigan. Michigan’s 2002 statewide peak demand for electricity reached roughly 22,500 MW in August.

The Commission noted last year that there is some uncertainty nationwide about the continued additions of both utility and non-utility generating capacity. Around the country, there have been many reports of project delays and cancellations. Such reports are indicative of the increased uncertainty associated with projects whose expected completion dates are farthest in the future.

III. Recommendations for Legislation

The Commission has no recommendations for legislation at this time.

National electric energy markets remain in a state of competitive flux. The Commission intends to continue to monitor and participate in the federal process. The Commission will apprise the Governor and Legislature of any developments which may require further action.

IV. Commission Action Related to ROA

A. Commission Orders Related to Implementation of 2000 PA 141 and ROA Business Rules

In 2002, the Commission issued 39 orders to further establish and implement the framework for Michigan's ROA programs and the provisions of 2000 PA 141.⁹ These orders included:

- Approving 12 new licenses for Alternative Electric Suppliers.
- Approving customer choice tariffs for six of Michigan’s cooperative (member-owned) electric utility companies. Member-consumers with peak demands equal to or greater than 1 megawatt can choose an alternative electric supplier.¹⁰
- Authorizing transition charges of zero for Consumers Energy for 2003 and directing MPSC Staff to convene a collaborative to make recommendations to the

⁹ Commission orders are available on the Commission's web site at <http://cis.state.mi.us/mpsc/orders/electric>. Orders specifically about electric utility restructuring are also available through an annotated index at <http://cis.state.mi.us/mpsc/electric/restruct/orders.htm>. Documents and orders associated with many cases are available in the MPSC Electronic Case Filings system, at <http://efile.mpsc.cis.state.mi.us/efile/electric.html>.

¹⁰ See 2000 PA 141, Section 10x(1); [MCL 460.10x\(1\)](#).

Commission regarding future stranded cost determinations.¹¹

- Approving, for deferred recovery, electric restructuring implementation costs incurred in 2000 by Consumers Energy and Detroit Edison.¹²

B. Commission Action to Protect Customers

In 2002, the Commission issued orders:

- Accepting compliance filings and granting waivers, as ordered, regarding the Code of Conduct for electric utilities and their affiliates.¹³
- Establishing a legislative hearing process regarding proposed administrative rules to establish service quality and reliability standards for electric distribution systems subject to the Commission's jurisdiction.¹⁴
- Awarding grants from the Low-Income and Energy Efficiency Fund.¹⁵ These included: (a) low-income energy assistance grants totaling up to \$27.4 million to seven organizations for 2002 and another up to \$20 million to four organizations for 2003; (b) energy efficiency grants totaling up to \$12.2 million to nine organizations; and (c) low-income energy efficiency grants totaling more than \$5 million to seven organizations.

C. Commission Action on Consumer Education and Information Disclosure

1. Consumer Education

The Commission issued an order commencing implementation of a customer choice education program.¹⁶ The order directed the start up of the CHOICE education program for the purposes of informing commercial electric customers about customer choice, informing commercial and residential electric customers about the availability of green (renewable) power, and informing potential alternative electric suppliers of the opportunities to participate in the customer choice program in Michigan.

2. Information Disclosure

The Commission issued an order revising requirements for disclosures, explanations, or sales information disseminated by entities selling electric services to the general

¹¹ See MPSC Case No. U-13380, at <http://efile.mpsc.cis.state.mi.us/cgi-bin/efile/viewcase.pl?casenum=13380>.

¹² For Consumers Energy, about \$19.6 million was approved in Case No. U-12891. For Detroit Edison, about \$27.2 million was approved in Case No. U-12892. See <http://efile.mpsc.cis.state.mi.us/efile/electric.html>.

¹³ See 2000 PA 141, Section 10a(4) ([MCL 460.10a\(4\)](#)). See MPSC orders in Case No. U-12134, at <http://cis.state.mi.us/mpsc/orders/electric>.

¹⁴ See 2000 PA 141, Section 10p(5); [MCL 460.10p\(5\)](#). See MPSC Case No. U-12270, at <http://efile.mpsc.cis.state.mi.us/cgi-bin/efile/viewcase.pl?casenum=12270>.

¹⁵ This fund was established by 2000 PA 141, Section 10d(6) ([MCL 460.10d\(6\)](#)). See MPSC orders in Case No. U-13129, at <http://cis.state.mi.us/mpsc/orders/electric>.

¹⁶ See 2000 PA 141, Section 10r; [MCL 460.10r](#). Orders and documents related to the customer education program are posted on the MPSC Web site, at <http://efile.mpsc.cis.state.mi.us/cgi-bin/efile/viewcase.pl?casenum=12133>.

public.¹⁷ The requirements include disclosure of the environmental emissions and fuel mix used to deliver electric power, including renewable resources. MPSC Staff is working with the electric industry to implement the information disclosure requirements.

3. Michigan Renewables Energy Program (MREP)

The Commission established the Michigan Renewables Energy Program (MREP).¹⁸ The Commission directed MPSC Staff to establish an MREP web site and electronic mail list service, and initiate an MREP collaborative to address issues referred in the Commission's order. Those issues include possible legislative initiatives and recommendations about "methods to encourage the development of renewable energy generation by residential and small commercial customers, including net metering."¹⁹ MPSC Staff was also directed to prepare an annual report concerning the MREP, to include a status report on renewable energy sources and uses in Michigan and a summary of policy analysis and recommendations from the collaborative. The first annual report will be delivered to the Commission in May 2003.

V. National Influences

In 2002, like previous years, the progress of competition in Michigan's electricity markets was greatly influenced by national events. Energy markets throughout the U.S. continued to be plagued by sluggishness in the national and state economies, lingering concerns about the California electricity crisis, and continuing fallout from the collapse of Enron and the investigations into its accounting and energy trading practices. Since late 2001, five states have delayed implementation of their electric industry restructuring plans, and California suspended its program (see Figure 4, p. 14).

In addition, 2002 brought revelations about several billion dollars worth of so-called "round-trip" or "wash" trading in electricity markets. In such trades, buyers and sellers agreed to exchange identical blocks of power at the same time and price, thus creating, at a minimum, an artificial impression of higher volumes of electricity sales and purchases. Some observers have also suggested that these trades were used to manipulate the reported price of power in various markets. As the story unfolded, the trading operations of several of the country's major energy companies were implicated. Investigations were started by the federal Securities and Exchange Commission, Commodity Futures Trading Commission, and Federal Energy Regulatory Commission.

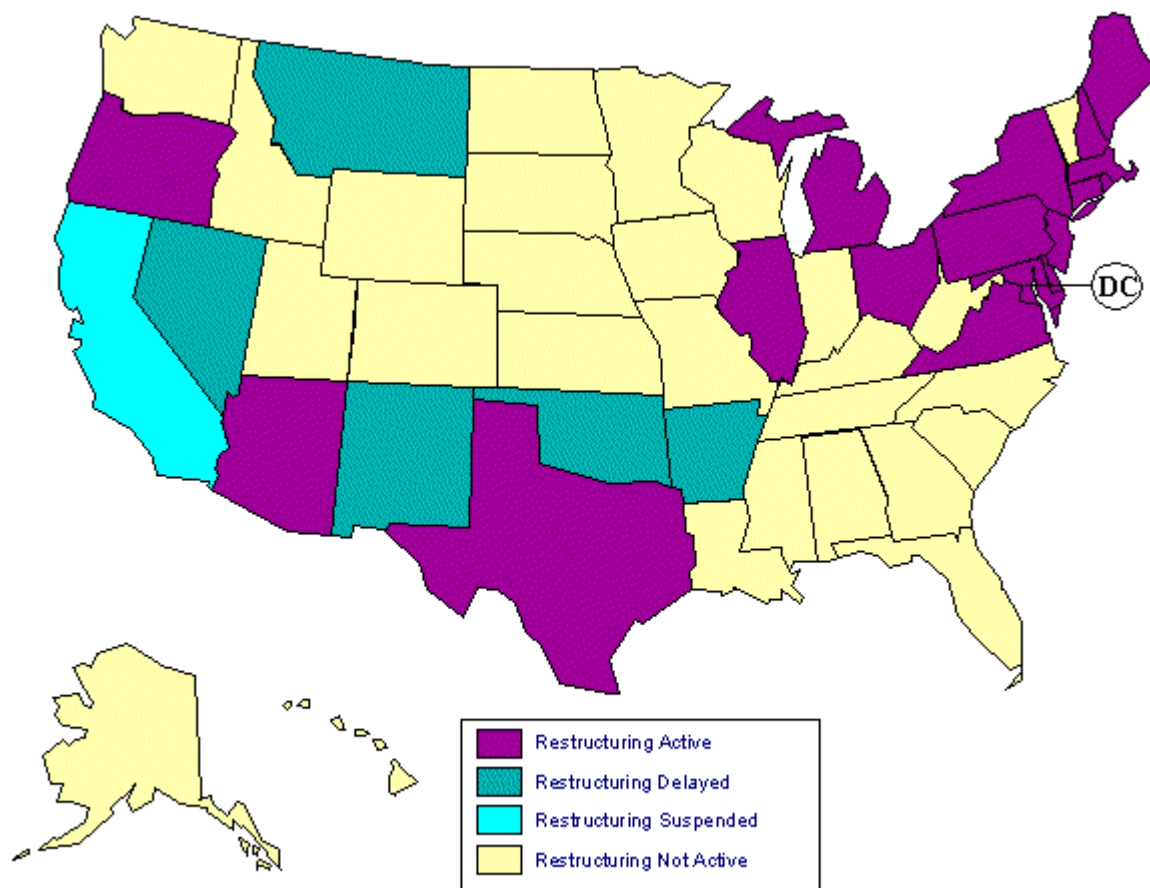
CMS Energy, parent company of Consumers Energy, was involved in these round-trip swaps. In June 2002, CMS announced plans to "eliminate its speculative energy trading business line." CMS Energy is in the midst of a re-audit of financial results for 2000 and 2001. CMS Energy debt was downgraded by rating agencies to non-investment grade and its common stock value plummeted. The company completed large sales of assets during 2002. In January 2003, CMS Energy suspended its stock dividends.

¹⁷ See 2000 PA 141, Section 10r(1); [MCL 460.10r\(1\)](#). For the disclosure requirements themselves, see: <http://efile.mpsc.cis.state.mi.us/efile/docs/12487/0032.pdf>. All associated orders and documents are posted on the MPSC Web site, at <http://efile.mpsc.cis.state.mi.us/cgi-bin/efile/viewcase.pl?casenum=12487>.

¹⁸ See 2000 PA 141, Section 10r(6); [MCL 460.10r\(6\)](#). See MPSC orders in Case No. U-12915, at <http://cis.state.mi.us/mpsc/orders/electric>. The MREP Web site is <http://www.michigan.gov/mpsc/0,1607,7-159-16393---,00.html>.

¹⁹ May 16, 2002 Order in Case No. U-12915, p. 16. See <http://cis.state.mi.us/mpsc/orders/electric/2002/>.

Figure 4: Status of State Electricity Restructuring Activity as of December 2002



Source: U.S. Department of Energy, Energy Information Administration, http://www.eia.doe.gov/cneaf/electricity/chg_str/regmap.html.

Aquila, Inc., parent company of Michigan Gas Utilities, reorganized and exited from its wholesale services business in August 2002. Aquila's access to the capital markets is substantially curtailed as downgrades to credit ratings below investment grade occurred. Aquila, as a result of the reclassification associated with the discontinued operations and the reclassification of sales and cost of sales, combined with the inability of its former auditor, Arthur Andersen, LLP, to attest to these adjustments is required to have its financial statements for 2000 and 2001 re-audited by new auditors.

CMS and Aquilla were not alone in exiting the wholesale energy trading business and selling international assets. By the end of 2002, several of the largest operations in the U.S. were reported to be exiting trading or significantly scaling back operations. American Electric Power Co., Inc. (AEP), parent company of Indiana Michigan Power Co. and one of the largest electric generating companies in the U.S., was also hurt by the turmoil in the energy-trading market. AEP decided to exit the speculative trading business in October 2002. Reuters news service reported (January 8, 2003), "[C]redit has dried up...[and] trading volumes have disintegrated." Among the companies reported exiting the business entirely in 2002 were Aquila, CMS Energy, Dynegy, and El Paso. Reported as scaling back or reorganizing were Allegheny Energy, Duke Energy, Progress Energy, and Williams Companies.

The net results of these issues being reported throughout the year included widespread downgrading of company stocks and bonds involved in energy trading and a drying up of the capital available for merchant plants. There is widespread conjecture that round-trip trading in 2000 and 2001 had created a picture of inflated electricity markets that encouraged investors to pour money into new power plant construction. Once news of the situation was widely understood, however, some proposed merchant plants were canceled and work was even halted on some plants that were already in construction. Fitch Ratings pointed out that about \$1 in every \$5 of total U.S. capital market debt maturing between 2003 and 2010 belongs to diversified and merchant energy companies. A Fitch spokesperson said, "The attitude of bank creditors to the merchant energy companies with large maturities in 2003 will be key to determining how many companies enter bankruptcy."²⁰

Though it is too early to draw any firm conclusions about the ultimate changes that will result from all of these watershed events in 2002, it is clear that they continued to contribute to both a general cooling off of the U.S. economy and a slowdown in further transition to competitive energy markets. Nevertheless, participation in Michigan's competitive electric markets continued to generate slow but steady growth throughout 2002.

VI. For Additional Information

Michigan *Customer Choice and Electricity Reliability Act* (2000 PA 141; MCL 460.10 et seq.), amending 3 PA 1939 (MCL 460.1 et seq.): <http://cis.state.mi.us/mpsc/electric/restruct/pa141.htm>, <http://www.michiganlegislature.org/law/mileg.asp?page=getObject&objName=mcl-Act-3-of-1939>.

National Conference of State Legislatures. (2001, October). *Restructuring in Retrospect* http://www.eren.doe.gov/electricity_restructuring/pdfs/restructuring_in_retrospect.pdf [PDF, 706 kB].

U.S. General Accounting Office. (2002, December). *Lessons Learned from Electricity Restructuring*. GAO-03-271, <http://www.gao.gov/new.items/d03271.pdf>. U.S. Department of Energy, Energy Information Administration, Web Site on Electric Power Industry Restructuring and Deregulation: <http://www.eia.doe.gov/cneaf/electricity/page/restructure.html>

²⁰ Statement attributed to Ellen Lapson of Fitch Ratings, December 2002.

Michigan Licensed Alternative Electric Suppliers*

Company Name, Address, Contact Information	Case Number	Authorization Date
AEP Ohio Commercial & Industrial Retail Company, L.L.C. d/b/a AEP Retail Energy 110 West Michigan Avenue - Suite 1000A; Lansing, MI 48933. Phone: 866.300.6410 URL: http://www.aep.com/energyservices/default.asp	U-13548	10/03/2002
CMS MS&T Michigan LLC One Jackson Square, Suite 1060; Jackson, MI 49201-2277 Phone: 517.768.2000 Fax: 517.787.4606 URL: http://www.cmsenergy.com/mst	U-12567	8/17/2000
CMS Marketing, Services and Trading Co. One Jackson Square, Suite 1060; Jackson, MI 49201-2277 Phone: 517.768.2000 Fax: 517.787.4606 URL: http://www.cmsenergy.com/mst	U-12563	8/17/2000
Constellation NewEnergy, Inc. 4901 South Inkster Road; Dearborn Heights, Michigan 48125	U-13660	12/20/2002
Cook Inlet Power, LP 200 E. Big Beaver, Suite 168; Troy, MI 48083, Contact: Hugh McCaffery V.P. Sales & Marketing Phone: 248.619.3995 Fax: 248.619.3997 email: hughm@cook-inlet.com URL: http://www.cookinletpower.com	U-13265	1/22/2002
Dorman Energy, L.L.C. 41000 Woodward Avenue, Suite 395E; Bloomfield Hills, MI 48304 Phone: 248.203.9906 ext. 112 Fax: 248.203.9907	U-13281	2/1/2002
DTE Energy Marketing, Inc. 101 N. Main Street, Suite 300; Ann Arbor, MI 48104, Phone: 734.887.2000 Fax: 734.887.2236	U-12564	8/17/2000
Dynegy Energy Services, Inc., C/O Michigan Power Limited Partnership 5795 West 6th Street; Ludington, MI 49431 Phone: 866.247.8135 email: EnergySolutions@Dynegy.com URL: http://www.dynegy.com	U-13078	9/07/2001
ElectricAMERICA 15901 Red Hill Avenue, Suite 100; Tustin, CA 92780, Phone: 800.962.4655 Fax: 714.259.2575 URL: http://www.electricamerica.com	U-13203	11/20/2001
Energy International Power Marketing Corporation d/b/a POWERONE CORPORATION 7242 Haggerty; Canton, MI 48187 Phone: 734.455.2500 email: rami.fawaz@poweronecorp.com URL: http://www.poweronecorp.com	U-13280	2/1/2002
Engage Energy America LLC (formerly Engage Energy US, L.P.) 39500 High Pointe Blvd., Suite 260; Novi, MI 48375 Phone: 248.596.4000 Fax: 248.596.4001 URL: http://www.engageenergy.com	U-12569	8/17/2000
Exelon Energy Company (formerly Unicom Energy Inc.) 2350 Green Road, Suite 178; Ann Arbor, MI 48105. Phone: 877.473.0657 (toll free) URL: http://www.exelonenergy.com	U-12662	10/6/2000
FirstEnergy Solutions 395 Ghent Road; Akron, Ohio 44333 Phone: 800.977.0500 URL: http://www.fes.com	U-13244	01/08/2002

- This list is current as of December 31, 2002. An up-to-date AES directory is kept on the MPSC Web site, at <http://cis.state.mi.us/mpsc/lic-enf/aesprog/aeslist.htm>. For information about AES licensing and a directory of pending applications, see <http://www.cis.state.mi.us/mpsc/electric/restruct/esp/>.

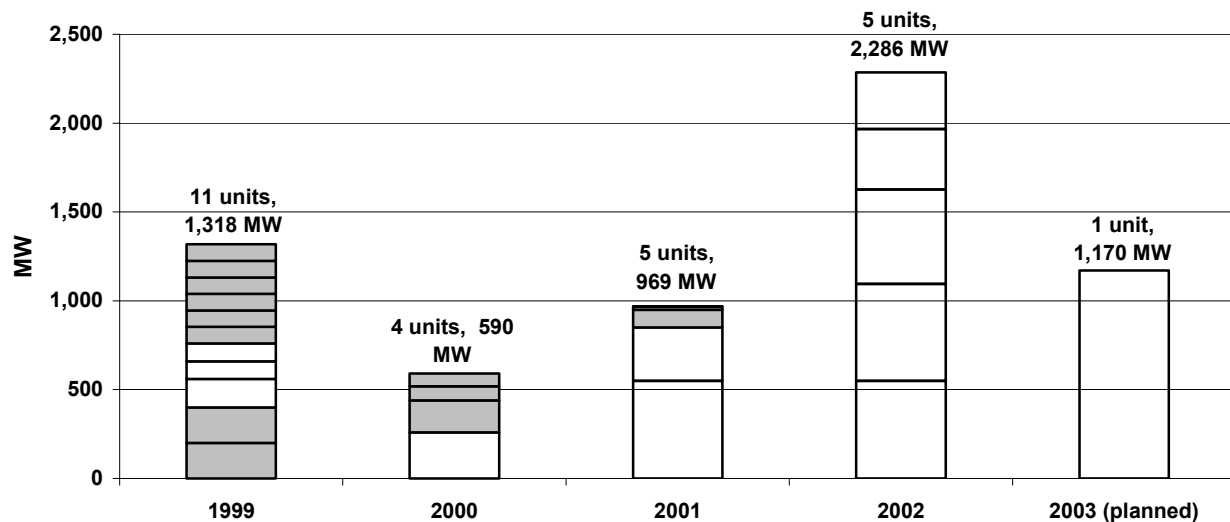
Michigan Licensed Alternative Electric Suppliers (continued)

Company Name, Address, Contact Information	Case Number	Authorization Date
Metro Energy, LLC c/o Detroit Metropolitan Airport, Building No. 821; Detroit, MI 48242 Contact: Linda S. Ackerman Phone: 412.330.1016 Fax: 412.330.1018 email: lackerman@dqe.com	U-13311	2/25/2002
Mirant America Retail Energy Marketing,LP 1155 Perimeter Center West; Atlanta, GA 30338 URL: http://www.mirant.com	U-13516	9/16/2002
Nicor Energy, L.L.C. 1001 Warrenville Road, Suite 550; Lisle, IL 60532-4306 Phone: 888.642.6797 Fax: 630.435.1584 URL: http://www.nicorenergy.com	U-12722	11/20/2000
Nordic Electric, LLC 2010 Hogback Road, Suite 4; Ann Arbor, MI 48105 Phone: 734.973.7700 URL: http://www.nordicelectric.com	U-12562	8/17/2000
Nordic Marketing, LLC 2010 Hogback Road, Suite 4; Ann Arbor, MI 48105 Phone: 734.973.7700 URL: http://www.nordicelectric.com	U-12568	8/17/2000
North American Energy, L.L.C. 4121 Okemos Road, Suite 17; Okemos, MI 48864 Contact: Robert C. Evans Phone: 517.347.4048 Fax: 517.347.4075 email: nanr@tctmet.net	U-13310	2/25/2002
Premier Energy Marketing, L.L.C. 900 Victors Way; Ann Arbor, MI 48108 Phone: 734.929.1255 Fax: 734.929.1259 URL: http://www.premierenergy.net Contacts: Bruce Schlansker, 734.929.6611, bschlansker@premierenergy.net George Deljevic, 734.929.6612, gdeljevic@premierenergy.net	U-13620	11/7/2002
Quest Energy, LLC 173 Parkland Plaza, Suite B; Ann Arbor, MI 48103 Phone: 734.997.0500 Fax: 734-997-0791 URL: www.questenergy.biz	U-12566	8/17/2000
Sempra Energy Solutions 39555 Orchard Hill Place, Suite 600; Novi, MI 48375 Phone: 877.2SEMPRA (toll free) Fax: 248.374.5068 email: email@semprasolutions.com URL: http://www.semprasolutions.com	U-13361	4/16/2002
Strategic Energy, L.L.C. First Center Building, 26911 Northwestern Hwy, Suite 300; Southfield, MI 48034 Phone: 248.262.1588	U-13609	11/7/2002
Wolverine Power Marketing Cooperative, Inc. 10125 W. Watergate Road, P. O. Box 100, Cadillac, MI 49601 Phone: 231.775.7500, 877.907.WPMC toll-free, Fax: 231.775.0172 URL: http://www.wpsci.com	U-12723	11/20/2000
WPS Energy Services, Inc. 173 Parkland Plaza, Suite B, Ann Arbor, MI 48103 Contact: Mark Stiers. Phone: 734.997.0500 Ext. 231 Fax: 734.997.0791 URL: http://www.wpsenergy.com	U-13245	01/08/2002

New Michigan Capacity Since January 1, 2002

FACILITY NAME	CAPACITY (MW)	OPERATING DATE
Kinder Morgan	550	June 2002
First Energy	340	June 2002
Dynegy	546	June 2002
Mirant Zeeland LLC (phase 2)	530	June 2002
DTE Energy	320	June 2002
Total New Michigan Capacity Since January 1, 2002	2,286	

**Michigan Electric Capacity Additions by Year,
1999 through 2002 and planned for 2003**



Notes: Shaded boxes represent power plants built by Michigan electric utility companies and not shaded boxes represent merchant plants. All new capacity added since 1999 is fueled by natural gas, with the exception of 1.8 MW of wind generators added in 2001.

New Capacity Announced or Under Construction in Michigan*

FACILITY NAME	CAPACITY (MW)	STATUS	OPERATING DATE
Augusta Park Energy, LLC / El Paso North America	340	Delayed	2004
Calpine Corp. – CME North American Merchant Energy LLC	900	Delayed	2005+
CME North American Merchant Energy LLC	1,100	Delayed	2006
Dominion / CME North American Merchant Energy LLC	800	Delayed	2006
Dominion / ERORA Group	600	Delayed	2006
ERORA Group	605	Permitting	Jul-06
Hannahville Industrial Park	1,000	Permitting	2008-14
Indeck Energy Services	1,100	Delayed	2005+
International Energy Partners	300	Delayed	Indefinite
Mirant Wyandotte, LLC	550	Delayed	Jun-05
Nordic	850	Permitting	2008
Panda Tallmadge Power, LP / Alliant Energy Partners	1,100	Delayed	Late-04
PG&E National Energy Group	1,170	Construction	Fall-03
Sempra Energy Resources	500	Delayed	Jun-05
Tenaska, Inc., Bluewater Energy Center, LLC	880	Delayed	2006
Total Under Construction or Planned	1,170		
Total Permitting	2,455		
Total Delayed	8,170		
Grand Total	11,795		

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- MPSC Staff maintains a Web page, *Merchant Power Plants in Michigan*, at <http://www.cis.state.mi.us/mpsc/electric/restruct/merchantplants.htm>. A *Michigan Merchant Plants Map* is available in PDF format from the State Utility Forecasting Group, at Purdue University. See https://engineering.purdue.edu/IIES/SUFG/MAPS/index_html.