



DATE: APRIL 16, 2010

TO: SENATOR JEFF PLALE

**FROM: STEVE BAAS, DIRECTOR OF GOVERNMENT AFFAIRS
METROPOLITAN MILWAUKEE ASSOCIATION OF COMMERCE**

RE: CEJA

As you know, MMAC has serious concerns about the potential costs of AB 649/SB 450 (CEJA). We are particularly worried that the mandates in this legislation could negatively impact both Wisconsin's livability and competitiveness by making us a high cost energy island.

In reviewing the PSC's analysis of the impact of the bill and the substitute amendment introduced this week, I believe the Commission has made a serious methodological error that distorts the actual cost impact of the bill and would like to bring it to your attention.

The Commission's report asserts that the CEJA substitute amendment would provide ratepayer savings against Wisconsin's current status quo. The commission supports their assertion by noting that the substitute amendment includes a provision that would incent 15% energy conservation by 2025 versus the status quo - thus resulting in lower aggregate capital costs (regardless of the fact that renewable energy costs more than conventional-fuel energy) and lower bills for customers that are consuming less.

The source of this statement is shown in Table 4 of the commission's report, showing cumulative production (generation) costs in several different regulatory scenarios - status quo; the original CEJA Bill; and the new substitute amendment. These scenarios are then subjected to three different assumptions regarding potential CO2 regulation costs that may be imposed - no regulation at all; \$10/ton of emissions; and \$20/ton of emissions. If this info and the underlying assumptions are taken in isolation, it indeed suggests that the CEJA Sub scenario saves total cumulative production dollars and thereby results in savings for the customer over the status quo.

Table 4: Present Value of Cumulative Costs to Meet Demand through 2025

CO₂ @ \$0/ton	Status Quo	\$52.0 billion
	CEJA	\$54.3 billion
	CEJA Sub	\$50.6 billion
CO₂ @ \$10/ton	Status Quo	\$65.9 billion
	CEJA	\$63.3 billion
	CEJA Sub	\$62.0 billion
CO₂ @ \$20/ton	Status Quo	\$79.8 billion
	CEJA	\$74.4 billion
	CEJA Sub	\$73.4 billion

But taking this Table 4 in isolation ignores the fact that prices are driven up in a reduced sales scenario so long as fixed costs are recovered in part by volumetric rates. It is in ignoring this fixed cost recovery factor that I believe the PSC has developed flawed cost impact data.

Fortunately, accurate extrapolation of the CEJA cost data can be achieved using the PSC's own numbers by simply dividing their Table 4 figures by their Table 3 figures.

Table 3: Annual Statewide Electric Demand (MWh)

	2015	2020	2025
Status Quo	78,812,000	81,612,000	84,506,000
CEJA	75,147,000	74,000,000	73,075,000
CEJA Sub	75,147,000	74,000,000	73,075,000

Dividing the PSC estimates of production costs in the 9 scenarios in Table 4 by the sales volumes in Table 3 demonstrate the resulting production cost increases per Mwh, and the resulting per Mwh electric rate increases.

PSCW's TABLE 4: total cumulative production costs through 2025			10%	PSCW Table 3 Energy Consumption (2025) (MWH)	Average Rate for Production Cost recovery (\$/MWH)	RATE DIFFERENCE OVER STATUS QUO (percentage)	RATE DIFFERENCE CEJA Sub OVER CEJA (percentage)
			Assuming 10% fixed cost recovery per year * (\$MILLIONS)				
CO ₂ @ \$0/ton	Status Quo	\$52.0 billion	\$5,200	84,506,000	\$61.53		
	CEJA	\$54.3 billion	\$5,430	73,075,000	\$74.31	20.8%	
	CEJA Sub	\$50.6 billion	\$5,060	73,075,000	\$69.24	12.5%	-6.8%
CO ₂ @ \$10/ton	Status Quo	\$65.9 billion	\$6,590	84,506,000	\$77.98		
	CEJA	\$63.3 billion	\$6,330	73,075,000	\$86.62	11.1%	
	CEJA Sub	\$62.0 billion	\$6,200	73,075,000	\$84.84	8.8%	-2.1%
CO ₂ @ \$20/ton	Status Quo	\$79.8 billion	\$7,980	84,506,000	\$94.43		
	CEJA	\$74.4 billion	\$7,440	73,075,000	\$101.81	7.8%	
	CEJA Sub	\$73.4 billion	\$7,340	73,075,000	\$100.44	6.4%	-1.3%

* Note that Fixed Cost Recovery of 10% is used for illustration purposes only. Using a different number will not change the percentage differences in the last two columns.

As you can see, the results, using PSC's own study numbers, indicate that the CEJA Sub proposal would increase electric rates between 6.4% and 12.5% above the status quo, depending on the assumption made for CO2 regulation costs. This would be an improvement from the original proposed bill, in which rates would increase between 7.8% and 20.8%, but it would still be a significant increase above the status quo. In addition, we are concerned that even these estimates, derived from PSC's own data points to 6.4% to 12.5% rate hike, still underestimates what we can expect based on real impacts in other states. For example, Minnesota and Iowa both adopted 25% by 2025 renewable mandates and now electric customers are facing rate increases of 14% and 20% respectively, with future hikes inevitable.

We are extremely concerned that these increased rate costs would have a dampening effect on the economy as electricity would cost more for everyone. Those concerns are heightened further in light of the current challenging economic climate.

I urge you to carefully consider these costs and our concerns as you make your decisions on this piece of sweeping environmental and social policy.

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