

Rival utility case plans up to voters, courts

By Louise Okrusky
staff writer

A battle is shaping up in the courts and at the polls between the state's utilities and a consumer group over gas and electric costs.

Utility companies, with support from organized labor, argue that a Michigan Citizens Lobby ballot proposal would slow prompt recovery of operating costs and eventually weaken the state's troubled economy.

The MCL's plan will go before voters as Proposal D Nov. 2. Michael Blombach, public affairs director of Consumers Power Co., says it will cost the company millions in interests charges and stifle construction jobs. Organized labor agrees.

The utilities support a rival plan, Proposal H, placed on the ballot by the Michigan Legislature. Joe Turchinsky, executive director of MCL, calls it "devoid of content . . . it changes nothing."

Both groups argued their cases recently in a meeting with Observer & Eccentric Newspapers editors.

BOTH PROPOSALS would prohibit

so-called "automatic pass-throughs" by which utilities adjust rates when the cost of the gas and coal they buy goes up or down. Such rate changes would be subject to hearings by the state Public Service Commission.

There the similarity ends. Proposal D would limit the PSC to hearing one rate increase case per utility product at a time. Companies which deal with more than one utility are permitted a case for each utility. (Separate cases would be permitted for policy questions unrelated to rate increases.)

At present, Detroit Edison Co., for one, has 22 cases pending before the PSC, said Edison attorney Christopher Wren. He likened the situation to 22 rail lines coming into Detroit and all being forced to converge on a single track.

THE UTILITIES and unions, organized as Michigan Citizens for Jobs and Energy, are fighting to place on the Nov. 2 ballot their counter-proposal, H. It doesn't restrict the number of rate cases the PSC can hear.

The controversy has pitted the AFL-CIO, construction trades and utility

workers unions against MCL, which Turchinsky said usually has union backing.

MCL is appealing to the Michigan Supreme Court a decision by the state Court of Appeals to place the second proposal on the ballot.

A third measure in the state Legislature is intended as a complement to both Proposals D and H. It is House Bill 5527, and it is expected to be acted upon by the Senate within the next few weeks. It would require the PSC to conduct hearings and vote on attempts by the utilities to pass on increased costs to consumers through rate hikes.

The bill provides money for consumer groups to present their side in cases concerning cost recovery, said Turchinsky. However, funds aren't available to consumer groups for general rate cases.

That bill deals with a problem MCL seeks to solve through Proposal D. If utilities are forced to consolidate their rate increase cases into one, consumer groups, with limited staffs and funds, gain time to raise money to argue their side of a case, Turchinsky argued.

UTILITY COMPANIES and unions fear that limiting rate increases to a single case will prevent utilities from

passing on to consumers in a timely fashion their increased energy and heating costs, said Blombach.

In Michigan, it takes 12-18 months for the PSC to hear a rate case, Blombach said. By piling all rate problems into a single case, the PSC would soon have a backlog. On top of that, fuel prices fluctuate monthly, he said.

The result: Utilities would have to borrow money to pay for their natural gas and coal while waiting for the PSC to approve a rate increase.

Blombach said his company alone has \$328 million in rate cases pending before the PSC — four times the firm's annual \$85 million net earnings from gas sales.

"Going out and borrowing \$328 million at about 13 1/2 percent interest over a 12-month period adds about \$44 million to the cost of that fuel," he said.

That cost would be passed on to consumers. Instead of lowering customers' costs, Blombach argues, Proposal D would ultimately raise them.

"We need to at least recover our costs. In other words, we can't buy high and sell low and stay in business," said Blombach.

Currently, Consumers Power spends 72 cents from every \$1 of revenue to buy

gas and 49 cents of the \$1 of electric revenue to buy fuel, Blombach said.

BUT PASSAGE of Proposal D wouldn't automatically result in losses for the utilities and customers, according to Turchinsky.

The proposal would allow utilities to recover their operating costs in a timely way, he said, because midway through the case, the PSC usually grants an interim adjustment which gives the utilities most of what they're asking.

The PSC bases its projected rates on carefully analyzed estimates of the coming year, he said. Thus, those rates are intended to be equitable for the entire year.

THE UTILITIES and unions fear the MCL proposal would result in a lowering of the companies' credit ratings.

Both the Moody Index and Standard & Poor pushed the state's utilities credit rating to the bottom rung of their "investment grade" listing. If the companies slip one step to the "speculative" category, they fear they would have trouble selling shares to prime buyers such as insurance companies and pension funds.

It's this lowering of the companies' credit rating which worries the utility unions and has them rallying to the side of business. They fear the state bond market would nose-dive. There would be a domino effect, hitting municipalities and forcing them to lay off workers, according to Keith Tarr-Whelan, labor consultant for Michigan Jobs and Energy.

Municipalities would then plead poverty and demand unions settle for less at bargaining time, Tarr-Whelan said. Unions also are concerned about the companies' credit ratings because their pension funds are invested in utilities, Tarr-Whelan said.

TURCHINSKY DENIES his group is working for the economic demise of the utility companies.

Proposal D would force the utilities to be "lean, mean and bargain hard" when shopping for gas and coal. Automatic pass-throughs, he said, give utilities "minimal incentive to bargain around."

Although utility company spokesmen argued it wasn't always a workable plan, Turchinsky said that gas companies can shop for fuel throughout the country as well as Canada and Mexico.

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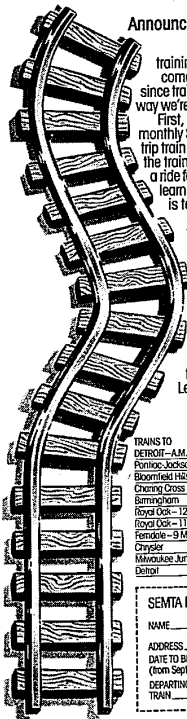
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