

Utility ballot plans — who supports them and why

By Tim Richard
staff writer

"D is dumb," say the television commercials — but what is D?

And for that matter, what are all these utility proposals about on the Nov. 2 ballot?

Three of the seven state ballot proposals would affect the state Public Service Commission, which rules on rates charged by gas and electric utilities.

Here is an easy way to understand them:

• Think of D and G as opposing, but overlapping proposals on utility rates.

• H is a constitutional amendment which would make the Public Service Commission members elected officials rather than appointed by the governor.

PROPOSAL D is the work of the Michigan Citizens' Lobby, a group which frequently supports business regulation measures (auto mechanic licensing), and state Attorney General Frank Kelley. Supporters include the Michigan Education Association and a handful of other unions.

Its chief opponents are the utilities, state chamber of commerce, state AFL-CIO and construction unions. The campaign is Michigan Citizens for Jobs and Energy.

What started the furor was Consumers Power Co.'s announcement that natural gas prices would soar this winter because Algeria was drastically hiking the price of liquefied natural gas (LNG) to the pipelines from which Consumers buys.

The situation is complicated by the fact that utilities are big borrowers, paying 17 percent interest for working capital.

CURRENTLY, the utilities may increase or decrease their bills automatically as their fuel costs rise or fall. Both Proposals D and H would change this by requiring PSC hearings on fuel rate changes.

Proposal D

Proposal to require hearings on all utility rate increases, abolish rate adjustment clauses and establish procedures in rate hearings.

The proposed law would:

1. When rate increase is requested, require full and complete hearing on all costs of utility service, including fuel costs.

2. Abolish existing adjustment clauses and establish procedures in rate hearings.

3. Allow only one rate increase hearing per utility at the same time, unless hearings are for different services provided by the utility.

Should the law be adopted?

Says Joe Tuchinsky, executive director of the Citizens Lobby: "If passed, (D) will allow Consumers Power's Algerian gas purchase to be challenged, and it will stop utilities from raising their rates every month with little or no advance review."

The PSC, he argues, "lets utilities pay any price they please to suppliers, then pass on most or all of their costs to their customers in immediate rate increases."

NOT SO, say the foes of Proposal D.

Natural gas is delivered by a supplier, a pipeline and finally a distributor, such as Consumers Power. The federal government regulates the producer and pipeline. Thus, Proposal D amounts to double regulation by both the federal and state governments.

"Gas and electricity companies are

Proposal H

Proposal to prohibit certain adjustment clauses; prohibit rate increases without prior notice and hearing; and prohibit state legislator from accepting employment with a utility for industry," said.

The proposed law would:

1. Prohibit certain adjustment clauses and provide that utilities may, upon request, recover reasonable and prudent costs of fuel, purchased gas or purchased electricity, only after "full and complete hearing" on such costs.

2. Permit separate hearings to be held on any change in cost of fuel or purchased gas at same time as hearings on general rate increase.

3. Prohibit members of the present legislature from working for any Michigan utility for two years after leaving legislative office.

Should the law be adopted?

required to pay prices for fuel established by federal government regulation," says a position paper from the Michigan State Council of Service Employees.

Still, just last week, Attorney General Kelley asked the Federal Energy Regulatory Commission to reject two pipeline requests for rate increases.

Mike Blomback, Consumers Power spokesman, adds it isn't true that gas distributors have no incentive to hunt for cheaper supplies. "We have a \$7 billion investment. If we in Michigan

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aren't competitive, we won't attract industry," said.

THE HEART of the battle, however, isn't state approval of fuel rate costs. Rather, it's the provision allowing only one rate case every year.

Says MCL's Tuchinsky: "It prohibits a utility from asking for a rate increase when a previous case is still pending. And it prohibits the PSC from holding two or more hearings on the same case at the same time. This gives the attorney general and consumer organizations, with their limited resources, a fairer chance to participate."

Objects Consumers Power's Blomback: "In this state, it takes 14-16 months to get a rate case through the PSC." The utilities have a study showing Michigan is one of the slowest states in the union in processing rate cases. The average is about seven months.

HERE IS where high interest rates enter the picture.

In the case of Consumers Power alone, the amount of revenue at stake in the fuel adjustment hearing amounts to \$325 million a year. While waiting for the PSC to handle all its rate matters at a single case, the company would have to borrow that money at 17 percent interest.

Consumers Power's entire earnings are only \$85 million a year. Thus, says Blomback, the amount of revenue at stake is four times the size of the earnings. Fees of Proposal D place the interest cost to utilities at \$100 million a year.

Consumers Power's credit rating is BBB with Standard & Poor. It is on a "credit watch" list. Its bonds are barely "investment grade," which means institutional investors who like pension funds may buy them. But, says Blomback, one tiny slip downward will put the firm's securities into the "speculative" grade, make them impossible to sell to institutional investors, and raise the interest cost.

And those interest costs will wind up in the customers' utility bills.

PROPOSAL D starts out looking like Proposal D. It was placed on the ballot by the Michigan Legislature with the support of the Michigan AFL-CIO.

It would still require hearings on fuel adjustments, but it wouldn't limit a utility to one rate case per year.

Proposal H gets relatively little attention because its supporters are concentrating on defeating D.

Proposal G

A proposal for an elected Public Service Commission.

The proposed amendment would:

1. Establish a 5 member Public Service Commission to be elected for 4 years, with no more than 3 terms expiring at same time.

2. Provide that the Commission perform the duties currently assigned to the appointed Public Service Commission.

3. Require nomination of candidates for Commission to be by partisan political convention and election of candidates to be on non-partisan portion of ballot.

4. Provide that each Commissioner to be elected shall appear on the ballot as a separate office.

Should this amendment be adopted?

If state hearings are so duplicative of federal regulation, why do the utilities supporting Proposal H? Tuchinsky, they say, are public demanding some kind of look at the business. The utilities figure they can live with H.

Proposal H would go a step further than D by prohibiting members of the Legislature from going to work for a utility within two years of leaving office.

PROPOSAL G would amend the state constitution to give voters the opportunity to elect PSC members.

The method would be like the much-criticized method of selecting state Supreme Court judges. Candidates would be nominated at party conventions but run on a non-partisan ballot. Chief sponsor is ACORN, a Detroit neighborhood group which sees the PSC as "unaccountable to anyone except the utilities themselves." It says states with elective PSCs have lower utility rates than states with appointive PSCs.

Opposing G is a group called Voters for Responsible Regulation. On its steering committee are representatives from chamber of commerce, Consumers Power Co., the Communications Workers of America and the League of Women Voters of Michigan.

Beverly McAninch, Plymouth resident, says G "would make a mockery of our elections because candidates nominated by political parties would be presented as nonpartisan candidates."

"Nomination at such political conventions are likely to be political plums, which is hardly ample qualification for serving on the PSC."

She adds, "Bedsheet ballots simply do not allow for the kind of public education which makes for good government." Michigan elects 43 officials on a statewide basis.

Added Don Liedemair of the Communications Workers: "There has been a tendency in government to think that more is better — that is, the more politicians, the better the service or decisions will be. That is a dangerously incorrect assumption."

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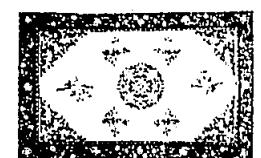
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