

# Businesses react to potential cost hikes

Energy hikes would negatively affect numerous area commercial, other entities



Above left, a grinding mill at the Tilden Mine is shown. There are a dozen mills at the mine, each drawing roughly 5,700 horsepower, electrically operated. The mills are part of the huge draw of electrical power needed to process raw ore into iron ore pellets. Similar mills are also used at the Empire Mine. (Photo courtesy of Cliffs Natural Resources) Above right, staff is shown performing open heart surgery at Marquette General Hospital. Hospital officials said funding for staff and development at the hospital could be negatively affected in light of potential electricity cost increases. (Photo courtesy of Marquette General Hospital)

By JOHN PEPIN  
Journal Staff Writer

**MARQUETTE** — Several area businesses are bracing for proposed increased electricity costs, which could spiral skyward pending decisions by the Federal Energy Regulatory Commission.

Those concerns are primarily focused, for the short-term, on potential increasing System Support Resource subsidy costs and their allocation for continued operation of the Presque Isle Power Plant.

There are also worries over potential lost tax revenue, given a recent tax valuation challenge by power plant owner We Energies and for the long-term future, there remain additional challenges in the effort to develop low-cost, reliable power for the region.

Amy Clickner, chief executive officer of the Lake Superior Community Partnership, said the energy issue is "confusing, ever-changing and probably the biggest economic development challenge to hit

## Energy coalition gives ratepayers voice

By JOHN PEPIN  
Journal Staff Writer

**MARQUETTE** — In an effort to provide a greater, more unified voice for electricity ratepayers in the Upper Peninsula, the ad hoc Upper Peninsula Energy Users Coalition held an organizational meeting in Marquette earlier this month.

The Oct. 1 session was attended by those representing larger industrial companies, universities, eco-

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the U.P. in decades." "From an economic development standpoint, the increases expected will be

added to the already high energy costs we face in the U.P. today. This is a significant cost of doing business especially for those in manufacturing, data centers or any business or institution that uses power," Clickner said. "It puts the region at a significant disadvantage when vying for location or expansion projects. Once implemented, we will also feel the effects of how difficult it may be to retain companies."

Clickner said the good news is that from Gov. Rick Snyder's office on down, people are engaged in the effort to find a reliable, affordable energy solution for the region.

At Marquette General Hospital, the cost increases would be expected to have a negative impact.

"We've seen a steady increase in our electrical costs," MGH Chief Executive Officer Ed Banos said. "They've gone up

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about 6 or 7 percent a year. For Marquette General, just under \$2 million in electrical costs in 2012 now is going to be \$2.2 million in 2014."

Banos said increases in electric costs could potentially slow some of the growth the hospital is looking to do when investing into facilities and doctors.

"For us, as a large employer, the nice thing about Marquette General is we've seen volume growth in the last year," Banos said. "Just this month, we've hired 39 new employees in our orientation."

But Banos said increased electric costs could affect new hires in the future because the costs can't be passed on to patients.

"Medicare pays us a fixed amount of dollars," Banos said. "Just because the electric bill goes up, Medicare doesn't give us more money and we're seeing cuts in reimbursement, rather than increases in reimbursements. So if our electric bill goes up \$200,000 in a year, we're going to have to make up that \$200,000 someplace else. We truly can't pass that on to the consumer."

The impact could also be felt in MGH development.

"We're committed to building the new hospital and spending the capital dollars, but we might cut back the capital a little bit," Banos said. "When you're spending \$10 million a year in capital like we are doing right about now, and we're certainly going to spend more on a new hospital, maybe we'll only spend \$9.5 million if the energy costs go up. And instead of hiring 39 employees, we might only hire 37 or 38 employees."

Banos said the hospital gets its power through the Marquette Board of Light and Power, which will prevent increases from being nearly as drastic as some

others. But he estimates the hospital increase could still total \$250,000 or more.

From Cliffs Natural Resources to the Lundin Mining Corp, cost increases would also be expected to impact mining in the Upper Peninsula.

"The matter of affordable and reliable energy affects every business and household in our community," said Mike Welch, general manager of Lundin's Eagle Mine. "As a major employer and economic driver in the region, we are closely monitoring the situation. We will work together with all the interested parties to protect our business interests and help ensure longer term stability of energy costs for the U.P."

The largest impact is expected to be absorbed by Cliffs Natural Resources, with its Empire and Tilden mines representing the largest electric load in the U.P. If the proposed subsidy costs increase from \$52 million to \$97 million — with 99 percent of those costs segregated to U.P. ratepayers — Cliffs would be expected to pay about \$47 million, according to the Michigan Public Service Commission.

"As the Empire and Tilden mines seek to aggressively reduce costs in response to industry conditions, the mines are challenged by the prospect of huge power cost increases associated with the plan to disproportionately allocate nearly all of the costs for the continued operation of the Presque Isle Power Plant to U.P. ratepayers," said Dale Hemmila, Cliffs Natural Resources director of public affairs for North America.

Hemmila said that as a result of four rate cases initiated by We Energies over five years, the mines and other U.P. ratepayers have been made to pay tens of millions of dollars for the expansion of generation and transmission capacity in Wisconsin

that did not provide any reliability benefits to the U.P.

"Now that costs must be incurred to account for the lack of long-term investment in its Michigan service territory, We Energies is attempting to impose nearly 100 percent of SSR costs on Michigan's U.P. ratepayers," Hemmila said. "The failure to plan for the long-term future of electric generating capacity in the U.P. is not the fault of Cliffs, other U.P. ratepayers or Michigan's Electric Choice policy."

Hemmila said We Energies first announced it was considering retiring the Presque Isle plant in 2011, prior to Cliffs' decision to change suppliers, which occurred in 2013.

Now, three years We Energies announcement, there exists no reasonable justification for charging U.P. ratepayers disproportionately for the continued operation of the plant, Hemmila said.

"The additional rate shock associated with the Presque Isle Power Plant SSR increase puts the Michigan mines in a less competitive position," Hemmila said. "It negatively affects our ability to invest in the mines and can have an adverse impact on the long-term viability of these operations. These are costs that are directly absorbed by the mines and cannot be passed on to our customers."

Hemmila said the increases could impact every cost across the board for businesses in the U.P. and individual residents.

Cost impacts would also be felt by local governmental operations.

"Marquette County is very concerned about the energy challenges facing it with the potential closure of the We Energies plant on Presque Isle and most recently, the North American Electric Reliability Council ruling, which will shift the majority of the SSR payment to Upper Peninsula customers,"

Marquette County administrator Scott Erbsich said. "Marquette County further recognizes that this issue is not limited to the borders of Marquette County, but stretches throughout the Upper Peninsula. The county feels that keeping (electricity) generation in the Upper Peninsula, with stable pricing, is critical for the viability of the region."

Erbsich said the proposed 2015 budget for the county increased the utility expense line item for all operations.

"(The county) is unsure if this will be adequate or not to meet the potential increases in electrical costs," Erbsich said. "The county will continue to monitor these expenses. Should there be a substantial shortfall, then the county will need to review options on how to address the increased expense. It is too early to state the level of impact to county operations at this time."

The city of Marquette could face tax impacts related to the Presque Isle Plant, as well.

We Energies recently announced it was seeking a \$148 million reduction in the true cash value of the plant. An attorney for the city said the true cash value on the tax roll is \$210 million, with the company wanting it reduced to \$61 million. The issue will be decided by the Michigan Tax Tribunal.

Universities would also be expected to be impacted by potential increased costs. At Michigan Tech University, director of energy management and sustainability David Taivalkoski said the annual cost to the university for subsidizing the Presque Isle, White Pine and Escanaba power plants was calculated at \$50,000.

That figure was based on the total annual subsidy paid to We Energies for Presque Isle of \$52 million, with U.P. ratepayers paying 8 percent of the cost. When the

Wisconsin Public Service Commission suggested the percentage paid by the U.P. should be 52 percent, the annual impact at Michigan Tech was projected at \$390,000.

Under the worst case scenario, with the cost going up to \$97 million, with the U.P. paying 99 percent of the cost, Michigan Tech's impact is estimated to be roughly \$1.2 million.

"Such a steep increase in the cost of electricity would have a significant impact on Michigan Tech. It will make it more costly for students and their parents because those additional costs will have to be factored into the university budget," said Dale Tahtinen, MTU vice president for governmental relations. "This is especially unfortunate since state funding cuts in recent years have already forced us to reluctantly raise tuition."

At Northern Michigan University, officials have not determined the potential impact, awaiting the outcome of the FERC decisions.

"The cost impact of the subsidy payments for the Presque Isle Power Plant on the electricity rates for the university are not known at this time," said Kathy Richards, NMU associate vice president in engineering and planning/facilities. "The university is communicating with the Marquette Board of Light and Power, its service provider, regarding this issue."

BLP officials said the utility's production of electricity through its own facilities is helping shelter customers from the impact of subsidy costs.

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## ENERGY COALITION GIVES RATEPAYERS VOICE CONTINUED

### Voice from 1A

economic development interests, businesses and concerned individuals to organize electricity ratepayers in the region, who expect to be facing increased electricity costs.

These increases could materialize from decisions pending before the Federal Energy Regulatory Commission concerning allocations of costs to subsidize operations of the Presque Isle Power Plant in Mar-

quette and smaller facilities in Escanaba and White Pine.

Under the worst case scenario proposed, annual subsidy costs for the Presque Isle plant would increase this month from \$52 million to \$97 million, with 99 percent of those costs borne by U.P. ratepayers beginning Dec. 1. The Michigan Public Service Commission estimates costs could increase up to \$180 each year for an average residential utility customer.

"We had a good discus-

sion and hopefully we're going to get off the ground because this really does affect ratepayers in the U.P.," said Don Ryan, who facilitated the meeting but was not representing a specific group and holds no formal position with the coalition. "There's also a long-term issue of where are we going with future power development in terms of generation, transmission, whatever it might be?"

The coalition plans to release more details about the group's plans and activities

in the near future. People from multiple U.P. counties are expected to be represented in the coalition.

"The problem, if you look at it, you've got the users, you've got the providers, you've got the regulators and to some extent you've got the economic development pieces, when they all get in the room at the same time, you don't make much sense because everybody is coming from their own position," Ryan said. "But the users are the least organized, the least unified, they

have no positions, they're all individuals and so they're not very effective. And so if we could get a group together that represents not just the companies, but all the ratepayers, at least they could be heard."

Ed Banos, chief executive officer, at Marquette General Hospital said he attended the meeting and found the energy issue to be "eye-opening."

Amy Clickner, chief executive officer of the Lake Superior Community Partner-

ship, said she feels positive about the effectiveness of the new group.

"We know that both the short-term and long-term solutions will come via a collaborative effort of stakeholders joining together," Clickner said. "That is why the formation of the U.P. Energy User's Coalition is timely and a necessary part of the equation."

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