Want Jobs? Stop Playing Favorites With Utilities

Granholm-era regulation led to double-digit price hikes and worsening service

By James M. Hohman and Jason Hayes | July 2022

Elected officials are sensitive to the state's economic reputation, perhaps more so than to its actual economic performance. Michigan's governor demonstrated this principle in a recent comment.

"I am proud that we came together to deliver economic development legislation that has helped us land huge projects, creating thousands of jobs," Governor Whitmer told a gathering of Ford executives, state officials, and UAW representatives at the Detroit Chamber's Mackinac policy conference in June.

> **"Reliable and inexpensive energy helps manufacturers, commercial businesses and residents, too."**

Whitmer is hardly the first politician to promote the claim that economic development packages generate corporate interest in the state. When Michigan lawmakers hear reports of major automobile manufacturers like Ford promising investments in electric vehicle battery plants in other states, they see that as a loss of face.

Voters, media, big businesses, union officials, and lobbyists all over Lansing demand of political leaders, "What did you do to bring those jobs to Michigan?" Unfortunately, elected officials are prone to responding with a promise to write larger checks to favored companies. They know that kind of promise gets media headlines, even though a more effective response would be to work to improve the business climate for everyone.

Late last year, Ford Motor Company cited Michigan's high electricity prices as a key reason for its choice to locate planned EV battery plants in Kentucky and Tennessee. The state's electricity market is highly regulated, and the regulations are supposed to ensure that utility monopolies offer consistent services at reasonable rates. But it clearly doesn't work this way. When Michigan had open choice in electricity markets, our average total electricity rate — the average of residential, commercial, and industrial rates — dropped to more than 11% below the national average. Absent competitive pressure — which Michigan benefited from until 2008 — regulators have allowed Michigan's utilities to provide unreliable energy at the highest rates in the Great Lakes region, now 16% above the national average.

Continued on back

State policies favoring utilities come at a cost, which is paid by the utilities' customers. Ford is one of many companies that have been deterred by Michigan's high energy prices. For a variety of reasons, electricity rates paid by industrial customers tend to be lower than those paid by residential users. But Michigan's industrial electricity rates are still 7.9% above the national average, according to data from the Energy Information Administration.

If lawmakers found a way to get utilities to match the national average electricity prices, manufacturers would have saved $147 million in 2020. It would take a lot of selective subsidies to make up for these basic cost disadvantages driven by state policy.

Selective business subsidies do not make up for a bad business climate. Elected officials should be interested in creating a winning environment for everyone. Reliable and inexpensive energy helps manufacturers, commercial businesses and residents, too.

Yet instead of encouraging affordable and reliable electricity, lawmakers have encouraged utilities to phase out their reliable and already paid-for plants. When the utilities propose plans that will result in the closure of existing plants and the construction of expensive and weather-dependent solar and wind, state regulators review and then approve them. That sticks Michigan residents with yet another set of costs and lessens electricity reliability for both residents and businesses.

By standing aside and watching state agencies like the Michigan Public Service Commission approve these plans, lawmakers tacitly encourage utilities to fashion an increasingly fragile electric grid. State regulators also allow utilities to continue offering special favorable rates to select industrial customers while increasing rates on their residential customers and enjoying guaranteed returns.

Too often policy gets used to favor some interests at the expense of others. It's the classic economics of concentrated benefits and diffuse costs. Yet the costs diffused among electricity customers matter. Lawmakers should be interested in creating a more competitive business climate.

Available online at: www.mackinac.org/v2022-18

James M. Hohman is the director of fiscal policy at the Mackinac Center for Public Policy.

Jason Hayes is the director of environmental policy at the Mackinac Center for Public Policy.