Report on Wolverine Power Cooperative
Presented by Eric Baker
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Introduction

Thank you. I am pleased to have this opportunity to speak at Cherryland's 2009 Annual Meeting. Tony Anderson just provided you with an update on your retail distribution cooperative, Cherryland Electric. Well, Cherryland is a member of a wholesale cooperative. This cooperative, Wolverine Power Cooperative, is a Generation & Transmission Cooperative – one of about 65 similar organizations in the United States.

Generation & Transmission Cooperatives got their start in the 1940s. As electric cooperatives began to provide service in rural areas, they immediately began to grow as their customers realized the enormous conveniences that electrification could provide in their lives. But securing power supply and transmitting that power supply brought two enormous challenges: First, neighboring utilities simply refused to sell wholesale power to cooperatives, so cooperatives needed to take power supply into their own hands. Second, managing these complex power supply issues began to take up too much of the Boards' time, taking them away from their mission of serving the retail member-customer.

So several cooperatives pooled resources to form their own Generation & Transmission ("G&T") cooperative to procure power and transmit it back to them. These distribution cooperatives committed to buying 100% of their energy from their new G&T, which gave the G&T the contractual collateral against which to borrow the capital necessary to build power plants and transmission lines. This structure has survived for nearly 60 years, and it is still going strong throughout the country.

So what is Wolverine doing for you? This afternoon I am going to briefly highlight four important topics that impact you:

1. Transmission
2. Renewable energy
3. The Wolverine Clean Energy Venture in Rogers City, Michigan
4. Carbon legislation

Transmission

Wolverine has begun a 20-year plan to upgrade transmission facilities throughout Michigan. Wolverine owns nearly 1,600 miles of high-voltage transmission in 35 counties in lower Michigan. The bulk of these lines were built in 1952 and 1953. Imagine that! We built hundreds of miles of line in two years, and now it takes us four years to build a single substation!

Our founders were wise to build the system with extra capacity to allow for future growth. The good news is that the original system has served you very well for decades. The bad news is that transmission utilities throughout the United States still have many of the original wood poles on the transmission system and the capacity of the old system is fully utilized. Wolverine spent several years studying many different alternatives for upgrading the transmission system, and we have settled on a standard course of action. Instead of replacing individual poles when they are bad, we are rebuilding entire line sections. The new construction standard has higher ground clearances, larger conductors and the ability to convert to a higher voltage down the road, which will create 4-5 times the capacity for only a 15-20% construction cost premium.

It is going to take us awhile to rebuild the majority of the system. So, "How do you eat an elephant? – One bite at a time." We are searching for a sustainable upgrade pace that will take us nearly two decades. You may have noticed lines in this area that have been rebuilt this spring between Grawn and the East Bay area. Construction is being done by Wolverine employees and Michigan contractors. Cherryland operations personnel have been very helpful coordinating local issues during construction.

Will this construction raise your rates? The answer is yes, but not as much as you might think. Transmission is an essential part of the electricity supply chain, but it only accounts for about 5% of your bill. The good news is that you will have a transmission system that is more reliable, ready to accommodate future growth, and one that is more capable to integrate new renewable wind energy projects in northern Michigan.

Renewable Energy

Wolverine and its members are proud to have developed Michigan's first utility scale wind energy project in Michigan. The Harvest Wind Farm, constructed in partnership with John Deere Wind Energy, and located in the tip of the Thumb (near Elkton and Pigeon, Michigan) is about 50 MW. The project has 32 turbines and sits on 3,000 acres, and it cost John Deere nearly $100 million to construct. The project set a new Michigan wind energy record in 2008, and Wolverine was named the Wind Cooperative of the Year by the U.S. Department of Energy.

Wolverine is also collecting wind data near Rogers City, Michigan, for a potential second project and staying in regular contact with other wind power developers as we consider future steps. In addition, Wolverine has funded leading research by Michigan Tech University and Michigan State University on biomass as another renewable energy source. Specifically, we are studying three things:

1. The sustainable, available, wood supply in northern Michigan,
2. Which tree species can be successfully planted from seedlings and grown in the thousands of acres of vacant land in northern Michigan that currently lie fallow, and

3. What agricultural planting could work in northern Michigan. This week, Wolverine has MSU researchers planting trial fields of switchgrass in northern Michigan to evaluate low-till planting methods, treatment methods and yield potentials.

Will renewable energy raise your rates? The answer is yes. Renewable energy generation is significantly more expensive than other traditional alternatives available to us today. Most renewable generation resources are intermittent, meaning that they operate when nature wants them to, not necessarily when you want them to. We need to shift the debate away from whether or not they are more expensive to creatively finding ways to incorporate them into the electric grid in a way that preserves the incredible reliability provided by traditional forms of generation that we have all grown to take for granted. Renewable energy is an important part, and I stress part, of America's power supply future. Traditional forms of generation will be with us for decades.

The Wolverine Clean Energy Venture

Suppose you own a business and it is going strong. Your sales have grown faster than your competitor's for more than a decade, and sales are even holding strong in this bad economy. In fact, other customers are knocking on your door asking you to supply them with your product. Sounds pretty good, right?

But there's a catch. You have two problems. You lack future supply to provide these new customers that are knocking on your door, and more importantly, you are nearing the end of a long-term lease for your primary production facility, and it appears that you will need to relocate.

So let's put some perspective on this story. Suppose your annual sales are $250,000, but your biggest expense, leasing your production facility, costs you $190,000 per year. You are a good planner and you keep an eye way down the road as you run your daily business. You see the potential of losing your production facility, so you determined five years ago to begin setting aside some revenue to pursue alternatives for the time after your production lease expires. Five years ago you began setting aside $1,000 a month into a fund to finance the development of your own production facility and to fund part of the down payment for construction. This new production facility has several advantages:

1. It is state of the art,
2. It has a much better environmental profile than the building you lease,
3. It will allow you to hire more local people,
4. It will provide you with long-term cost stability, and
5. It will allow you to use more sustainable local inputs to your process.

So far you have found a great location, completed your design, but you are tied up in the permitting phase. You have spent almost $20,000 to date, but you have no

guarantee that you will get your permits or that new construction will prove to be your best option.

This story describes Wolverine – simply add three zeros to the numbers used in the analogy and you are right on. Wolverine has revenues of $250 million each year and purchased power costs eat up $190 million of that revenue. The rest goes to pay for transmission, distribution and other facilities necessary to provide service to Wolverine's members. Wolverine's long-term power contracts are set to expire at the end of 2011.

Anticipating this, Wolverine has set aside $1 million every month for the past five years to finance the development of its future supply. The decision to do this was difficult, and it took a long-term vision and commitment by the cooperative Boards. The fund was fully vetted at each member Board table and approved by the Federal Energy Regulatory Commission as part of a Settlement with the Michigan Public Service Commission.

For the past four years, Wolverine has been focused on constructing a new power plant in Rogers City. This new production facility will be an enormous economic stimulus to northern Michigan, provide long-term price stability, and have a significantly better environmental profile than the power Wolverine has purchased for decades. Nearly $20 million has been spent to date on this development on land, engineering, permitting and legal fees. In addition, Wolverine spent an additional $7 million pursuing a similar project in Illinois before abandoning that project to focus its efforts in Michigan instead. Wolverine makes bi-annual filings at the Michigan Public Service Commission outlining these expenditures, and the Wolverine Board and member Boards regularly review these expenditures.

Each of these decisions was fully discussed with the distribution cooperative Boards, the Wolverine Board and the Michigan Public Service Commission.

Will the Rogers City project raise your rates? The answer is yes, and it will also create a long-term power supply resource that is much cleaner than traditional alternatives. In addition, Wolverine expects that it will be less expensive than other alternatives it has studied. If you would like a more detailed report on the costs of the Roger City project compared to other alternatives, I encourage you to check out the Wolverine Clean Energy Venture website or the Michigan Public Service Commission website for a 500-page report that Wolverine has filed on this issue.

Carbon Legislation and its Impacts

Tony Anderson briefly discussed federal carbon legislation that is currently being debated in Washington, D.C. I want to stress four important points about carbon legislation.

1. Wolverine is not debating the science of climate change. In fact, Wolverine strongly advocates for developing a sustainable, self-sufficient energy policy in the United States.
2. Climate change legislation will increase energy costs to you across all sectors of the economy – not just electricity.
3. The implications of this legislation are very complicated and no one knows:
    a. When it will be enacted
    b. What form it will ultimately take
    c. Who will be the big winners and losers
    d. What the final economic impacts will be
4. All energy options will be affected by climate change legislation in some manner because it will take us decades as a nation to significantly change the way in which energy is produced.

I encourage you all to read as much as you can on this issue and engage your U.S. Representatives and Senators to make sure they fully understand the legislation's impact on electric costs and reliability.

Closing Thoughts

Some believe that the industry should pause and wait until it has clarity before it moves forward with any new construction of power plants. Some even celebrate the current economic recession thinking it will allow us more time to wait for more clarity on the matter. The problem is that the electric industry has essentially been "waiting for clarity" since the Three Mile Island accident in the late 1970s. Meanwhile, our generating fleet in Michigan has become the oldest in the nation. We rely on generating plants that have already exceeded their expected lives by 20 years, and it will take us years to make even a modest dent in replacing this fleet.

We must retire these old generating plants. Only two companies in Michigan thus far have demonstrated the courage to close their 1950s vintage power plants – Traverse City Light & Power and Wolverine Power Cooperative. These two companies had the vision to tear down aging plants and rehabilitate the former sites – even though these decisions cost their customers higher electric bills and put even more pressure on them to find replacement power.

In reality, the economic recession creates a wonderful opportunity if we have the courage to move. Equipment prices have eased off, construction costs are lower than they were three years ago, and the jobs created during construction and after construction will accelerate Michigan's economic recovery and develop essential skill trades in this region.

Talk is cheap. It is not difficult to talk about different options. What is difficult is to have the vision to see into an uncertain future and demonstrate the courage to make hard decisions and move forward with construction projects as needed. These decisions require gut-wrenching answers to questions such as:

1. Where should we locate the project?
2. What do we do if there is opposition?
3. How do we remain good neighbors in Michigan?
4. How much will this impact our customers' electric bills?
5. What will this do to service reliability?
6. What are the long-term economic implications of this decision?

I feel privileged every day to work with the Boards and professional staffs in the Michigan electric cooperative family, including those of Cherryland and Wolverine. These are highly trained, dedicated individuals who live in Michigan and care deeply about its future. They work many long nights and weekends, without much fanfare. They have high expectations, they are engaged, and they ask hard questions. They know that they work for you, the member at the end of the line, and they demonstrate a vision and courage that is essential in today's world.

Thank you.