



# **ASSOCIATION OF BUSINESSES ADVOCATING TARIFF EQUITY**

## **ASSOCIATION OF BUSINESS ADVOCATING TARIFF EQUITY'S ("ABATE") COMMENTS RESPONDING TO SELECTED ENERGY QUESTIONS; INSURING MICHIGAN'S ENERGY FUTURE**

### **Renewables:**

**2. To date, what has been Michigan's cost of renewables, and how has that impacted rates paid by residential, commercial, and industrial customers?**

A: Renewable power is just beginning to come on-stream and, as such, it will start to have a mounting impact on the rates paid by Michigan customers. In general, the cost of renewable power is \$119 per megawatt hour. The cost of renewable power is assigned to either the Power Supply Cost Recovery ("PSCR") expense as a "transfer price," or to the renewable surcharge funds (incremental cost of compliance). The amount assigned to the PSCR cost has been based upon the levelized cost of a coal-fired plant which has artificially increased the amount assigned to the PSCR factor for cost recovery from customers. Currently, there are cases pending before the Public Service Commission which will address the calculation of the transfer price. The transfer price is important because if it is artificially increased, as is the current policy, then the State of Michigan will overspend for renewable power and the retail rate impact limitations established by the Legislature in Section 45 of 2008 PA 295 will never be effective.

**16. How has Michigan, and how have other jurisdictions, limited the rate impact of renewable energy mandates on the residential, commercial, and industrial sector, if at all? What effect have such rate limitations had on other areas?**

A: As noted above, to the extent that the transfer price is artificially increased, then the retail rate impact limitations of Section 45 will never become effective. Michigan must adopt a policy that the transfer price must be equal to the cost of energy in the market that would have been procured "but for" the acquisition of renewable energy.

**18. How has Michigan handled the decision regarding what entities should construct and own renewable energy (e.g., an incumbent utility, an independent developer, feed-in tariffs)? What has been the practice in other jurisdictions?**

A. Act 295 placed certain ownership limitations on utility ownership of renewable energy systems. However, this is not a sufficient protection for customers, and Michigan should adopt a policy that requires utilities to openly competitively bid the entire renewable

energy systems instead of having a competitive bid limited to the engineering, procurement and construction for utility-owned generation. Full competitive bidding would assure that the retail electric rates in Michigan will not become more uncompetitive with the rates in other states. In considering Michigan's energy policy, it must be kept in mind that Michigan's retail rates are the highest in the Midwest and are not competitive with the retail rates charged to customers located in the states with which Michigan competes for jobs and investment.

30. **How has the current law regarding the electric market structure (i.e., electric choice) dealt with renewable energy compliance? How have other states with deregulated and regulated systems addressed compliance?**

31. **What impact has Michigan's retail market structure had on compliance with the renewable energy standard?**

A. Michigan's policy is to require that all sellers of electricity in Michigan, whether they be regulated utilities or alternative electric suppliers, must serve their customers with power secured from renewable resources. Therefore, all electric power providers will have to serve their customers using 10% of renewable energy by the end of 2015. As far as ABATE is aware, other states also require their alternative electric supplier to match any renewable energy requirements placed on utilities in those states.

#### **Electric Choice:**

3. **What is the experience with retail electric choice in other states/provinces/countries in terms of customer participation, rates, savings, competitive providers, and other characteristics?**

A. As noted in ABATE's formal presentation, ABATE members have experienced substantial savings by participating in retail open access in other states where permitted. On average, the savings are approximately \$25 per megawatt hour.

7. **What has been the experience of other states in terms of meeting capacity needs under various market regimes (i.e., fully regulated, partially restructured, and restructured)?**

A. There have been no shortages of capacity and energy under any of the regulatory regimes. It also appears that both MISO and PJM have taken the lead in setting targets for capacity to meet reliability needs. If a utility's capacity needs are not met by that utility, then there is some form of penalty imposed upon utilities by both MISO and PJM. Further, MISO is preparing its first reliability capacity auction for later on this year.

13. **How has Michigan, and how have other states, addressed the issue of stranded costs?**

- A. Michigan has imposed surcharges on utility customers to pay for stranded costs. Those stranded costs have been paid for by the customers of both Consumers Energy and DTE Electric, and the surcharges either have been terminated or are about to be terminated. In addition, Michigan customers of both Consumers Energy and DTE Electric are required to pay securitization bond and tax charges which, in part, were designed to pay these utilities the difference between the imbedded costs of their nuclear facilities and the market value as compensation for stranded costs. Other states have also imposed similar types of charges to pay for stranded costs.

**16. How has Michigan, and how have other jurisdictions, treated the various customer classes in terms of participation in restructured retail markets or partially restructured retail markets?**

- A. Other states have established aggregation programs for primarily residential and commercial customers. Under these programs, local municipalities or townships can aggregate the demand of residents and seek to secure a power supply for the aggregated demand. In Ohio, customers' load will be aggregated unless the customer elects to opt-out of the aggregation, in which event, it will buy power at the rates established for the local utility. Aggregation of load is an excellent policy.

**21. How have various restructured or partially restructured retail markets handled the issues of low-income customers and uncollectibles?**

- A. In some fashion, the needs of low-income customers are met by the local utility. The concept of supplier of last resort is a universal concept adopted in all restructured jurisdictions.

**26. What impact, if any, has there been on the rates paid by Michigan residential customers as a result of Michigan's electric choice program?**

- A. When electric rates were restructured in 2000 as a result of Acts 141 and 142, residential customers received a 5% rate discount paid for by the issuance of securitization bonds. In addition, residential rates were heavily subsidized by overcharges paid by commercial and industrial customers. In addition, residential rates were actually reduced because of a drop in the power supply cost recovery factors attributable to large customers moving from bundled service to retail open access.

**Energy Efficiency:**

**8. How has Michigan, and how have other jurisdictions, treated various customer classes in energy efficiency standards?**

- A. Michigan imposes mandatory energy optimization programs on industrial customers, which is an extremely inefficient and very expensive way to promote energy efficiency. It would be much better if industrial customers were allowed to simply opt-out of any energy efficiency programs so that they would be able to spend their own money to

improve energy efficiency without having to first give it to the local utility and then seek to have it returned in some form of energy optimization grant.

**Additional Areas:**

**4. What time period is allowed for rate case decisions in Michigan and other jurisdictions?**

- A. Michigan requires that rate cases be completed within one year of the time a complete application is filed by the utility requesting a rate increase. This appears to be the norm in other states, as well.

**5. What has been Michigan's experience with the self-implementation of rates?**

- A. Michigan law is structured so that utilities have the unfettered right to self-implement rate increases up to the amount that they request in their initial applications. To date, the self-implemented rates have exceeded the final rate orders on numerous occasions, requiring that refunds be made. Michigan policy on making refunds assures that customers will not receive the amount that they are due or even, in certain cases, any refund even though they overpaid during the time that the self-implemented rates were in place. As far as ABATE is aware, no other states have self-implemented utility rates, but the Federal Regulatory Energy Commission (FERC) does permit regulated utilities to file their rates with FERC and then use the rates immediately unless the rates are suspended.