

Michigan's Energy Policy Landscape and Regulatory Framework

Presentation to
Roadmap to Michigan's New Energy Policy Stakeholder Group
August 3, 2015



MICHIGAN'S CURRENT ENERGY POLICY LANDSCAPE

Electricity

- 1939 PA 3 – Gives MPSC broad authority over regulated electric utilities
- 1982 PA 304 – Power Supply Cost Recovery
- 2000 PA 141 – Electric Industry Restructuring – “Customer Choice”
- 2008 PA 286 – Placed 10% Cap on Choice; allows for Certificate of Need, Integrated Resource Plan
- 2014 PA 169 – Cost Allocation Proceedings
- 2008 PA 295 – “Clean, Renewable, and Efficient Energy Act”
- 1995 PA 30 – Electric Transmission Line Siting

Natural Gas

- 1939 PA 3 – Gives MPSC broad authority over regulated gas utilities
- 1969 PA 165 – Michigan Gas Safety Standards
- 1929 PA 9, PA 16, and PA 69 – Siting of Gas and Oil Pipelines

Federal Environmental Policy

- Several EPA rules in effect or in the works which affect state energy policy:
 - Mercury and Air Toxics Standard (MATS)
 - SO₂ NAAQS
 - Cross-State Air Pollution Rule (CSAPR)
 - Ozone NAAQS
 - 316(b) Cooling Water Intake
 - Coal Combustion Residuals Retention Rule
 - Carbon Rule – 111(d)

Michigan's Energy Future – 2015 Legislation



Michigan Agency for Energy

- Elements of MPSC, MI Energy Office, DEQ brought together to form MAE.
- Purpose is to make Michigan's energy policy adaptable, with focus on reliability, affordability, and environmental protection.
- Serves as a single entity dedicated to provide all of state government the information and context they need to support Michigan's energy priorities.

UTILITY REGULATORY FRAMEWORK -

MPSC proceedings with direct rate impacts

Base Rate Case

- Review utility requests to increase base rates
- MPSC conducts contested case proceeding to:
 - Review utility applications that allege a revenue deficiency and request an increase in the schedule of rates or charges based on the utility's total cost of providing service
 - Determine whether an increase in utility revenues will be authorized
 - Determine what groups of customers (e.g., residential, commercial, industrial) will be affected
 - Determine new rates designed to collect appropriate revenues from customers
- Cases initiated by utility application for increased rates, but no more than one utility case per year
- Self-implementation of rates allowed if final order is not issued within 6 months of application
- Final order required to be issued within 12 months

Power Supply Cost Recovery (PSCR) Plan

- Minimize and ensure timely recovery of fuel and purchased power costs
- MPSC conducts contested case proceeding to:
 - Review reasonableness and prudence of annual utility plan with respect to fuel and other eligible expenses
 - Provide up-front approval of annual plan and associated PSCR charges assessed to customers
 - Review five-year forecast of sales, supply sources, and power supply costs “in light of existing sources of generation” and generation “under construction”
- Cases conducted annually
- PSCR Plan case must be filed not less than 3 months prior to the 12-month PSCR plan period
- Reconciliation cases conducted annually to reconcile PSCR revenues with actual expenses

Energy Optimization (EO) Plan

- Consideration of utility plans to meet applicable EO standard
 - 1.0% electric
 - 0.75% natural gas
- MPSC looks at:
 - cost-effectiveness
 - reasonableness and prudence
 - ability to reduce future cost of service for customers
 - other factors
- Conducted biennially
- Annual reconciliation

Renewable Energy (RE) Plan

- Consideration of utility plans to meet RE standard
 - 10% by 2015
- MPSC looks at:
 - plan to meet RE standard
 - incremental cost of compliance
 - competitive bidding process (DTE/CE)
 - reasonableness and prudence
 - Lifecycle costs of RE plan plus EO plan do not exceed lifecycle costs of new coal-fired generation facility
- Conducted biennially
- Annual reconciliation

UTILITY REGULATORY FRAMEWORK -

Other relevant proceedings/policies

Certificate of Necessity

- Sec. 6s of PA 286 allows utilities to voluntarily file for Certificate of Necessity (CON) for construction of new generation, upgrade or purchase of existing generation, or long-term power purchase agreement.
 - \$500 million or more for large utilities
 - No recovery of costs associated with environmental upgrades, renewable energy projects
- MPSC, after contested case, must issue order approving or denying request within 270 days of application.

Integrated Resource Plan (IRP)

Sec. 6s of PA 286 outlines IRP requirements, including:

- A long-term forecast of the electric utility's load growth under various reasonable scenarios.
- The type of generation technology proposed for the generation facility including projected fuel and regulatory costs under various reasonable scenarios.
- Projected energy and capacity purchased or produced by the electric utility pursuant to any renewable portfolio standard.
- Projected energy efficiency program savings under any energy efficiency program requirements and the projected costs for that program.
- Projected load management and demand response savings for the electric utility and the projected costs for those programs.
- Electric transmission options for the electric utility.

Filed in conjunction with CON request

Mergers & Acquisitions

- Sec. 6q of PA 286 provided for Commission review of proposed mergers, acquisitions, or sale of assets.
- MPSC must consider the following:
 - Whether the proposed action would have an adverse impact on the rates of the customers affected by the acquisition, transfer, merger, or encumbrance.
 - Whether the proposed action would have an adverse impact on the provision of safe, reliable, and adequate energy service in this state.
 - Whether the action will result in the subsidization of a nonregulated activity of the new entity through the rates paid by the customers of the jurisdictional regulated utility.
 - Whether the action will significantly impair the jurisdictional regulated utility's ability to raise necessary capital or to maintain a reasonable capital structure.
 - Whether the action is otherwise inconsistent with public policy and interest.

Act 69 Cases

- PA 69 of 1929 requires a utility desiring to extend facilities in the same municipality where another utility is already serving to obtain a Certificate of Public Convenience and Necessity from the MPSC
- Meant to avoid wasteful duplication of utility facilities and potentially hazardous situations

Electric Choice

- PA 141 of 2000 authorized retail electric customers to choose supplier of electricity
- Authorized utility recovery of “stranded costs” and securitization of qualified assets (PA 142)
- PA 286 of 2008 capped electric choice at 10% of load in each utility’s service territory

Cost of Service Rates

- Sec. 11 of PA 286 of 2008 required electric rates to reflect true cost of service – “de-skewing”
- PA 169 of 2014 required utility filings to examine cost of service:
 - Explore different methods for allocation of production, transmission, distribution, and customer-related costs and overall rate design, based on cost of service, that support affordable and competitive electric rates for all customer classes.
 - Cases decided by MPSC in June

Transmission Line Planning/Siting

- Planning generally done through RTO process: MISO, PJM
- Siting of “major transmission lines” under PA 30 of 1995 – Electric Line Certification Act
- WERZ Board/expedited siting certificate