UTILITY CONSUMER PARTICIPATION BOARD

August 6, 2012

MINUTES

A meeting of the Utility Consumer Participation Board was held Monday, August 6, 2012 in the Ottawa Building, 4th Floor Training Room, Lansing, Michigan.

I. Call to Order

Jim MacInnes called the meeting to order at 11:04 a.m. Board members present: Jim MacInnes; Paul Isely; Susan Licata Haroutunian, Conan Smith. Members absent: None.

Others present: Michelle Wilsey, Board Assistant; David Shaltz, Residential Ratepayer Consortium; John Liskey, Citizens Against Rate Excess (CARE); Ken Rose (CARE); Joydeep Mitra (CARE); Kelly Kitchen (CARE); Don Keskey, Michigan Community Action Agency Association (MCAAA); Christopher Bzdok, Michigan Environmental Council (MEC); Monica Martinez, Ruben Strategy Group, LLC; Wes VanMalsen, LARA Procurement and Budget Services; James Ault, Michigan Electric & Gas Association; Ed Haroutunian

II. Approval of Agenda

MacInnes discussed the structure of the meeting. He requested Ken Rose comment in the board education section of the agenda.

Isely moved, second by Haroutunian and motion carried to approve the minutes and consent agenda with the addition of Ken Rose as a speaker under board education.

III. Board Education

Jim MacInnes introduced the board education session. He invited Ken Rose to discuss the PROMOD model and the utility bidding behavior.

Rose commented that an important point of understanding with regard to modeling is based on differences between the way the models are used and what the expectations are of those models. For example, PROMOD is a very old production model that has been updated over time but still has significant limitations. This is particularly the case because the inputs are self-supplied. They are useful for understanding certain outcomes based on reliability of the inputs. For example, determining where constraints or transmission limitations are and where you maybe need to build new power plants.

MISO is modeling their system for the changes in the MVP. They are taking the production costs, a baseline or business as usual inputs and then running it with the new system so that you can compare the old cost with the new cost. Then they dispatch it pretty much just like they were doing on a realtime basis, with inputs they assign, such as the plants expected to be available at this time, using certain known limitations, like the heat rates and the costs, the fuels that they use and the fuel that's available to try to simulate as closely as possible what's happening on that system and then make the comparisons. So the end result is really the new production costs that you would have compared to the old way(before MVP and after). And then you can play with the scenarios, and manipulate the inputs, e.g., a lower gas price, higher gas price, etc.

DOE, also runs various simulations in their forecast. There are multiple scenarios that they look at for example, different shale gas availability, different economic assumptions, etc. The output gives you a good idea of the total production costs.

But, that is not the same thing as trying to forecast what the price would be for consumers. On a real-time basis MISO is trying to keep the system in balance. They use the bid stack they get from suppliers in the day-ahead market. Every day they are bidding different prices depending on the situation they face and what they think their plant availability will be. The bid stack resembles a supply curve and demand sets the price.

When they calculate the LMP then for that day, it's dependent on those bids from all the suppliers, what the market conditions are for that day. The load will vary. There is at least three different ways that you would typically forecast the price. One approach would be just go based on a simple pricing trend. A more complex version is the trend of power that I'm going to take in, looking at fuel prices and the load forecast, etc. It's similar to a production cost model, but now I'm trying to forecast the price that consumers pay, not the production cost, and I may not have sufficient information in order to do those simulations. The third possibility would be to assume some type of a model for how the bidders behave in the system. So for example, you would characterize the market, e.g., an oligopoly market with price leadership. That approach usually has good predictive power for the short term. Less so for the long term.

In general the difference in discussing models is production costs v. retail pricing. MISO does not do a consumer price forecast. They are concerned about keeping the system running and operating.

Prof. Joydeep Chopra discussed rationale bidding and why it does not hold in these markets with concentrated market power. Chopra further discussed the limitations of the type of models used by MISO and more sophisticated models he has worked with.

Impacts of market power were discussed. MacInnes asked about MISO's ability to measure the state of the system with the implementation of 147 PMU points. Chopra responded that yes, PMU input gives you a very good sense of how much reactive power is flowing, but the PROMOD model as such isn't capable of accommodating that. The predictive power of the PROMOD model under various conditions (more distributed inputs, unusual stressful events, etc) and the pros and cons of a linear model and the types of adjustments MISO makes to model change were discussed.

MacInnes recapped the education and discussion the board has had regarding MISO and emphasized the importance and significance of change in the power industry that is underway.

Natural Gas Presentation

Monica Martinez, consultant and former MPSC Commissioner, noted how important the input on behalf of residential customers is in these cases. Her current client, America's Natural Gas Alliance, is involved with the production of natural gas. However when she was commissioner she served as president of the Organization of MISO States and was heavily involved in a lot of the issues in front of MISO, on behalf of the State of Michigan. She also was a representative on the Eastern Interconnection States Planning Council. So, she appreciates the education discussion on MISO as well as the opportunity to present information on the natural gas industry. The supply of gas, pursuant to discovery and development of Shale, is changing the industry dramatically. Michigan has Antrim shale capacity. Linn Energy, for example, has a thousand wells within Michigan alone, and they are continuing to go ahead and produce natural gas despite the lower prices that are going on today. Suppliers

choices will vary however, it is important to note that between now and 2035, natural gas has the potential increase its share in the Michigan economy.

Martinez also addressed concerns regarding water usage in the extraction of natural gas. She noted the industry is trying to address concerns through recycling of water. The industry is also trying to use more environmentally friendly chemicals in the fracking process. She also noted the potential environmental benefits of expanding the use of low cost gas in generation and that it may also put downward pressure on the LMP price discussed earlier. She explained that the interdependency between gas and electricity is being explored including at MISO. ANGA wants to provide information and to make sure that if individuals, end users and generators want to be able to use natural gas, that it is available to them. She distributed informational documents to the board. Isely asked if there are any problems moving the gas needed for electrical generation use? She responded that this is a point of discussion among parties and FERC is holding hearings and workshops on these issues. Because markets across the country are different, it is difficult to determine capacity needs and how to expand needed capacity. There is some delay waiting to determine what plants may shut down, what the political landscape will be, and what generation supply choices will be going forward. However, conversations and workshops are underway to figure out these issues. In transmission it is possible to build first but natural gas tariffs typically require costs to be covered so firm contracts must be in place in order to build.

Shaltz asked about the long-term outlook for Michigan wells (relative life of wells and production sites). He noted some cautions about the economics of shale gas production reported in trade publications. He asked where Michigan is on drill permits and what the outlook is going forward. She noted that it varies by producer. She said many are looking at opportunities in terms of what is best for customers and what is best for them to be able to continue production. In some states producers are working with utilities either with longer term contracts or the utilities are getting involved with the production. She noted procurement will continue to be a big discussion. Shaltz asked if exports are expected to grow given the price disparities in the US and places like Europe and Asia? She responded that exports require special approval from FERC and additional processing. One request has been approved and others are pending. It depends on the economics and producer preferences but it is an option. Shaltz noted that in July 2012, the Energy Information Administration reported that for the first time in history electric production from natural gas exceeded electric production from coal production. Keskey noted that this shift to natural gas is reflected in Consumers Reconciliation case for 2011. MacInnes commented on MISO work related to natural gas. For example, a recent report cited an investment of about $9.7 billion in new gas lines. He also noted that there is more stress on shale ga production due to water constraints, drought, atmospheric/environmental issues, etc. Recycling water, chemical transparency and other innovative solutions will be very important to the natural gas industry going forward. Martinez mentioned the website fracfocus.org. MacInnes noted that the International Energy Agency reported a bright global outlook for natural gas if they proceeded responsibly. Martinez noted that while Michigan is often overlooked as a major shale gas producer, the reality is that it is positioned to contribute a great deal to the economy and jobs if developed. MacInnes noted that power generators need firm, primary energy supply. Martinez agreed and cited the procurement and/or investment options as strategies to secure firm supply and reduce risk. Ault noted that there was a mechanism back in the 1980s that allowed a higher recovery in the GCR for Michigan produced gas. However, given the price of gas Ault thinks Michigan will be developed later. MacInnes noted the GCR mechanism mentioned seemed analogous to the 25X25 wind proposal. Martinez noted ANGA is not advocating for the GCR mechanism cited by Ault. But, producers want to produce and are looking for creative partnerships to allow that to happen in a way that is economically feasible and reduces risk to all parties including consumers. Cities who need capacity are evaluating options for natural gas. The City of Wyandotte already had the capability of using natural gas but they are now doing a complete conversion. They are moving away from coal mainly because of environmental regulations. Each set of circumstances is different but more are looking at it. Smith asked about storage. Martinez noted that the utility is making purchases as required by

the Commission. One of the issues the Commission is trying to figure out is how to reduce risk, it's not really figuring out how to reduce cost. So it's the balance between risk reduction and lower costs. MacInnes noted it is looking at cost reductions over the longer term, not necessarily today. He used the analogy of a 401(k) portfolio investment strategy. A discussion of power prices ensued. MacInnes referenced a MISO gas study. He noted the levelized cost of electricity, is pretty competitive. It also supplies voltage support (voltage reactive power) for the system. Large wind projects are coming in at less than six cents a kilowatt hour, but they have the intermittency problem. It is less than half a cent a kilowatt hour to back-up wind but you don't get as much VAR support. MacInnes noted that it is important to look at the present value of the cost to our residential ratepayers over time, and try to minimize that. And that's where some of the renewables will come in and play a role. They can't do everything, but they can play an important role.

Bzdok commented on the shale investment activity in Kalkaska County. Also, in the case of the Zeeland plant, they're reporting that for the first time that they're cycling some coal plants. Both of those trends are occurring through the MISO system. In terms of relative costs going forward he suggested the board look at the MPSC staff's model for transfer prices developed in the transfer price collaborative that arose out of one of the renewable cases. It models cost of new entry using a combined cycle versus simple cycle approach. MacInnes noted that they are coming out with new systems for coal ramping.

Haroutunian asked if DTE was utilizing any gas assets. Bzdok responded DTE doesn't presently own any major natural gas assets, and so as the gas prices have declined, DTE's PSCR costs have not significantly reduced. Most of their non-nuclear assets are in coal so they can't take advantage of the gas pricing movement like Consumers with Zeeland. It is possible they can purchase assets but it is getting late to build.

IV. Business Items

1. MEC Grant Amendment Request – Transfer of funds

Bzdok explained the transfer request before the board. All of these cases are part of the approved cases in UCRF Grant 12-01. The transfer is to realign budgets with case work and developments in specific cases. The grantee indicates that the first transfer from Consumers RE Reconciliation case to Detroit Edison is due to the fact that the review of the Consumers filing indicates that the costs of renewable energy to residential customers is declining and there were not issues of major concern in that case. However there are significant concerns in the Detroit Edison RE Depreciation case. DE continues to maintain maximum residential surcharges and MEC has concerns over requested depreciation rates. MEC expects more extensive testimony and exhibits will be required given DE defense of their position. The second transfer is based on MEC's assessment that Detroit Edison will seek changes to the transfer price in the RE Reconciliation Case rather than the RE Plan Amendment case. They are seeking to shift resources accordingly. The third transfer is to shift funds back to the 2011 CE PSCR Recon case to restore funding to pursue issues that have emerged in that case.

Smith moved, second by Haroutunian and motion carried to approve the MEC request to transfer funds as presented.

		Current Grant Amount	Transfer Amount	Amended Grant Amount
Transfer To	2011 DE RE Depreciation (U-16991)	$ 24,750.00	$ 12,625.00	$ 37,375.00
	2011 DE RE Recon (Not Assgnd)	$ 17,765.00	$ 10,077.00	$ 27,842.00
	2011 CE PSCR Recon (U-16432-R)	$ 37,975.00	$ 10,100.00	$ 48,075.00
Transfer From	2011 CE RE Recon (U-16655)	$ 17,675.00	(12,625.00) (5,050.00)	$ -
	DE RE Plan Amendment (Not Assgnd)	$ 35,350.00	(10,077.00) (5,050.00)	$ 20,223.00

2. MCAAA Grant Amendment Request – Transfer of Funding

Keskey explained that the request is for transfer of funds between UCRF grant 12-02 approved cases. Available funds (total 10,328.10) from 6 cases in which MCAAA has concluded work is being transferred to the 2011 Detroit Edison PSCR-R (U-16434-R) in which heavy discovery and litigation is expected in the coming months. Of primary concern are affiliate issues related to coal handling and Refined Emmissions Fuel (REF) projects.

Isely moved, second by Smith and motion carried to approve the MEC transfer request as presented.

	Current Grant Amount	Transfer Amount	Amended Grant Amount
2011 DE PSCR Reconciliation (U-16434-R)	$30,401.00	$10,328.10	$40,729.10
2010 CE PSCR Recon (U-16045-R	$26,361.00	($1,313.00)	$25,048.00
2010 DE PSCR Recon (U-16047-R)	$26,361.00	($3,509.55)	$22,851.45
2011 MichCon GCR Recon (U-16146-R)	$27,585.73	$28,221.02	($635.29)
2010-11 CE GCR Recon (U-16149-R)	$25,824.69	$28,221.02	($2,396.33)
2013 MichCon GCR Plan (U-16921)	$10,528.24	$12,500.00	($1,971.76)
2012 CE GCR Plan (U-16924)	$12,500.00	($421.17)	$12,078.83

3. UCRF Annual Report

Wilsey presented the final draft 2011 annual report. Public comments on the initial draft were received and distributed to the board. The only matter of substance that emerged from the comments was how to treat the section dealing with findings of the last Legislative Review (1986). The primary question was whether the

section should be edited or taken out. While the review findings are dated, it is the only legislative review that has been conducted. The board felt it was important to leave in for transparency. Wilsey noted that she made the recommended changes and added some notations to section 5. There was extensive discussion on the legislative review. No amendments were made. Isely moved, second by Haroutunian and motion carried to approve the report as presented.

4. Board Assistant Contract.

A committee was created at the last regular board meeting to review the board assistant contract and to make recommendations to the board on any changes needed. Paul Isely and Susan Haroutunian served on the committee. Isely reported that the committee interviewed key parties to determine the adequacy of resources, overall satisfaction with the current arrangement, and any suggestions or need for change and discussed the information between themselves. The findings indicated general satisfaction with the current contract, with a marginal need for additional resources. Wilsey reviewed the hours over the past two years and summarized her understanding of the expectations of the current board. She estimated an additional 15 hours ($950) would be needed to complete work this year and proposed that as an amendment to the current contract. She then proposed extending the current contract a year at the amended value of services of $23,925. Isely moved, second by Haroutunian and motion carried to approve the amendment of $950 to the current contract and approve the one-year extension of the board assistant contract in the total amended amount of $23,975.

5. Appointment of Vice Chair, UCPB – MacInnes recommended Paul Isely to serve as Vice Chair of the UCPB. The Vice Chair will serve in the absence of the chair and assist with board leadership. Smith moved, second by MacInnes and motion carried to appoint Isely Vice Chair.

V. Public Comment

Wilsey noted that the recent budget amendment requests submitted by grantees have been very well put together. That requires less time for review and helps with contract time management. She also noted the commercials and public relations regarding renewables. MacInnes noted he had seem them as well and Consumers seems to be excited about their new wind project. They are also repowering Ludington. The transparency and discussion increases progress.

VI. Next meeting – MacInnes announced that the next meeting of the board was scheduled Monday, August 27, 2012, **11:00 a.m.**

VII. Adjournment – MacInnes adjourned the meeting at 1:01 p.m.

Recorded by:
Michelle Wilsey, Board Assistant
Utility Consumer Participation Board

Transcript available.