

## UTILITY CONSUMER PARTICIPATION BOARD

December 3, 2012

### MINUTES

A meeting of the Utility Consumer Participation Board was held Monday, December 3, 2012 in the Ottawa Building, 4<sup>th</sup> Floor Training Room, Lansing, Michigan.

#### I. Call to Order

Jim MacInnes called the meeting to order at 1:12 p.m. Board members present: Jim MacInnes; Paul Isely; Susan Licata Haroutunian (via teleconference), Conan Smith and Ryan Dinkgrave. Members absent: None.

Others present: Michelle Wilsey, Board Assistant; David Shaltz, Residential Ratepayer Consortium (RRC); John Liskey, Citizens Against Rate Excess (CARE); Connie Groh (CARE); Bob Burns, Citizens Against Rate Excess (CARE); Ken Rose, Citizens Against Rate Excess (CARE); Don Keskey, Michigan Community Action Agency Association (MCAAA); Christopher Bzdok, Michigan Environmental Council (MEC); Wes VanMalsen, LARA Procurement and Budget Services; Shawn Worden, LARA Finance; Nick Khouri, DTE; Steve Transeth, Transeth & Associates; Roderick Coy, Clark Hill; Jim Padgett, DTE.

#### II. Approval of Agenda

MacInnes proposed an addition to the agenda of MISO update under board education. Isely moved, second by Smith and motion carried to approve the agenda with the addition of MISO update under board education.

#### III. Board Education

##### a. MISO Update (CARE)

Liskey reported that CARE was accepted by MISO as a member in the public consumer group sector. Other members include the Citizens Utility Board of Wisconsin, the Illinois Citizens Utility Board, the Indiana Utility Consumer Council, etc. representing interests of residential ratepayers. They plan to monitor the planning advisory committee, the reliability committee, and the supply adequacy working group. CARE met with MISO at the end of October.

Ken Rose attended the supply adequacy work group meeting. This group put together the capacity market that MISO had recently approved earlier this year from FERC, and now they are working on the details, such as the design of auctions. The workgroup will be releasing their report to FERC on implementation of the capacity market at the meeting on December 6. CARE will have the opportunity to comment prior to the report being filed with FERC. MacInnes requested copies of CARE comments.

Bob Burns attended the reliability subcommittee teleconference. One immediate area CARE may impact is related to posting EP node prices (historical). Posting prices at the nodes help measure congestion in the system. They are taking comments and CARE is considering filing comments in support of posting those prices because it would be helpful for the distribution utilities to be able to know where their congestion is, also it would be helpful for the Public Service Commission to be able to do geo-located energy efficiency, and it would also help to identify opportunities to take advantage of what they call maximum efficiency projects, which are the transmission projects that you might be able to have in Michigan that would allow you to actually have some of the costs of those projects picked up by MISO and do energy savings that way.

Rose noted that CARE was the only Michigan representative other than utilities. Liskey reported that they were meeting with the PSC staff to communicate about the MISO process and their involvement.

Smith asked Liskey to discuss milestones that the board ought to be paying particular attention to on this grant project. Rose commented that it was a process so they would focus on participating internally in the MISO process.

Smith commented that this is different than a typical case grant, so the quantifiable impact is more difficult to measure. Making sure that the board understands the impact of what CARE is doing and why on a regular basis is important. Being the only consumer representative for Michigan and getting a seat at the table is a milestone. He would like to understand other milestones as they are determined or accomplished. It will help with the evaluation of the work CARE is doing on this grant. Rose felt they could delineate what they were able to get changed and highlight those as their work progresses.

Smith asked Wilsey what inputs from CARE may be important in the drafting of the annual report to the legislature and in general for the board.

Wilsey responded that the grantee should address permissibility issues, and whether or not their involvement impacts transmission costs under the PSCR. They should also report impacts and their methodology for quantitative claims. Qualitative measures should also be explained. This should be done in regular status reports and should include complete copies of the filings that are provided to MISO or FERC. There was brief discussion of the northern area study which would allow excess hydro and wind power to be brought into Michigan from the north.

There was a technical delay with AV equipment so MacInnes took up business item IV(d) 2013 Meeting Schedule. Wilsey presented the proposed meeting schedule. It meets the statutory requirement that the board meeting bimonthly with an additional meeting in August for grant review for the new fiscal year. The meeting dates in April and October are proposed mid-month to better correspond to utility PSCR filings.

Smith moved, second by Dinkgrave and motion carried to approve the 2013 UCPB Regular Meeting Schedule as follows:

Monday, February 4	1:00 PM
Monday, April 15	11:00 AM
Monday, June 3	11:00 AM
Monday, August 5	11:00 AM
Monday, August 26	11:00 AM
Monday, October 14	11:00 AM
Monday, December 2	1:00 PM

All meetings will be held in the Ottawa Building, Lansing, Michigan.

MacInnes Introduced Rick Coy as a presenter under Board Education to address the Michigan Electricity Market and the Customer Choice issue. Mr. Coy's presentation is attached and included by reference to the minutes.

MacInnes then introduced Steve Transeth, Transeth & Associates representing DTE Energy as a presenter. Nick Khouri and Jim Padgett, both of DTE Energy participated in the presentation. Mr. Transeth's presentation is attached and included by reference to the minutes.

At 2:43 p.m., there was a 15-minute recess.

#### **IV. Business Items**

a. RRC Grant Request – Application for the 2012-13 GCR Plan cases

Shaltz presented the grant request at the August 27, 2012 meeting. The board deferred on a decision at that time and the application is being brought now as the filing deadlines are approaching.

The RRC's grant application proposes participation in eight GCR Plan and GCR Reconciliation cases. Today's grant request is for the four GCR plan cases of the four major gas utilities in Michigan; Consumers Energy Company, Michigan Consolidated Gas Company, SEMCO Energy Gas Company, and Michigan Gas Utilities Corporation. Each of these utilities will file GCR plans at the end of December, and will begin in March, so it's timely to present these grant requests to the board now. RRC selected these four cases because they represent over 98 percent of the residential gas customers in Michigan. The costs that the customers of these companies incur on their monthly gas bills, about 60 percent to 70 percent of those costs are reflected in GCR factors, so that's why these cases are so important.

The grant proposal workplan includes standard issues that RRC will audit in these cases, and they anticipate will be the same this year. Some developments RRC is paying attention to.

For Consumers Energy Company, RRC has focused fixed-price purchasing program which have inflated that company's gas costs to its customers. Last year RRC was successful in getting the company to change the way it designed its fixed-price purchasing program so that the amount the company is purchasing under that program is reduced. The company will have much more opportunity to participate in the market and capture lower prices available in the marketplace right now. RRC expects in the 2012-13 GCR Plan year GCR rates will be much lower than in the past for this company.

Upcoming issues include an application filed by Trunk Line Gas Company at the FERC whereby the pipeline company is proposing to abandon one of its two major pipelines in Michigan that serves Consumers Energy Company and actually provides about 60 percent of Consumers' supply. Claims of the pipeline and impacts on Consumers will have to be investigated. RRC expects FERC will probably order this for an evidentiary hearing at some time next year. RRC may seek a grant for participation in this hearing or they may consider ways in which they can support other parties in the proceeding.

RRC also plans to carefully examine how Consumers Energy in its five-year forecast is planning for this contingency. Also, in the five-year forecasts, RRC is also concerned that Consumers has been less detailed about their plans for providing services to customers in the future. RRC will pursue improved reporting requirements in the upcoming GCR Plan year to allow better assessment of these concerns.

Other issues for review include interstate pipeline contracts, how they're supplied, contracting for price, how they're planning to use their storage, the effect of gas Customer Choice.

With Michigan Consolidated Gas Company, the big issue remains the fixed-price program and the weight fixed-priced purchasing in their supply procurement portfolio. MacInnes asked if this was their strategy even though the price is so inexpensive now? Shaltz responded that when gas is purchased, they're not buying it at current prices, but at NYMEX futures prices. A 12 month futures price will approximate market prices. However, MichCon is using 2-3 year futures prices as part of their portfolio. These will have no relationship to current

market price at the time of delivery. RRC has presented the statistics to the Commission proving this disconnect. RRC would like to see a reduction in the percentage of fixed price purchasing.

RRC pursued the same issues with SEMCO and MGU and have been successful in improving their fixed-price purchasing programs to about 25% or lower. These companies have the lowest GCR cost of any utilities. And they do not have the hedge with storage operations that CECO and MichCon have.

Governor Snyder's energy address included interesting with regard to natural gas such as increasing production of natural gas in Michigan, supporting fracking, and developing a strategic natural gas reserve. 2013 will be an information gathering year. RRC will be involved with that, not using Act 304 dollars.

Natural gas prices have gone up in 2012, to approximately \$3.50 from a low of \$2.00. EIA projects the spot price will remain at about the \$3.50 level. RRC will continue to advocate on price so that GCR customers see the benefit of the market as do the Customer Choice customers.

One observation with regard to the earlier presentations is that, in Michigan, the customer choice program is not a market-driven program. Alternative gas suppliers simply beat the utility rate by 10 cents. What they are charging does not reflect what is going on in the market. Michigan's gas Customer Choice program needs to be revisited.

Smith noted that RRC had been working on the fixed-priced purchasing programs for a number of years. He asked if there was any difference this year than last? Shultz responded that three of the four utilities have modified their programs. Their effort will focus on MichCon. Smith asked if they expect the Commission to adjust policy on that. Shultz responded that they are currently awaiting a PFD in the MichCon 2012-2013 GCR plan. They hope it includes a recommendation that now is the time to order the company to reduce its fixed-price purchasing levels.

b. MCAAA Grant Request – Application for the 2012-13 GCR Plan Cases and MichCon Appeals

Keskey provided a brief description of MCAAA. He explained that in the past MCAAA has intervened in GCR Plan and Reconciliation cases for Michigan Consolidated Gas and Consumers Energy Company.

The issues they have pursued include affiliated transactions between the gas utility in each case and its parent companies and their affiliates. An example is MichCon has a gathering company subsidiary that interconnects with gas producers and sells gas to MichCon. That is arm's-length bargaining. MCAAA supported an adjustment in past cases, which the Commission has adopted, that made a rate adjustment to lower that cost to adopt more of a spot market price benchmark for the gas rather than what was called a jurisdictional rate.

MCAAA also advocated in both base rate cases and GCR cases that there be better alignment between decisions made in the GCR case with decisions made in the rate case. For example, another affiliated transaction involved Saginaw Bay Pipeline which we opposed merging into MichCon. It was an unregulated pipeline, and the effect of rolling in those facilities into MichCon would have been an annual rate revenue impact of about \$4 million a year. We again opposed that in the most recent MichCon case through the settlement negotiations. The final decision is that Saginaw Bay will not be rolled into MichCon. As it stands, that facility as a separate entity provides better opportunities for the future in terms of shale gas production and use of that line by independent gas producers.

Those are examples of real savings that have occurred from past interventions. MCAAA plans to defend the Commission order related to Michigan Gathering affiliated issue in the Court of Appeals by filing a brief in addition to the Commission's brief.

MCAAA also pursues storage issues. We have advocated, for example, that since the ratepayers are paying in rate base for the carrying costs in overall rate of return of the gas storage inventories and underground storage facilities, that whenever in the GCR market the price per MCF falls below existing price paid by ratepayers, that the utility should be more aggressive in trying to buy spot market gas.

Right now the policy of both utilities is to buy as much gas as they can from April 1 to October 31 and withdraw as needed from October 31 to April 1. This policy is operationally driven not market price driven. MCAAA would like storage used as a true price hedge.

MCAAA would also like to see storage used to avoid price spikes caused by extreme weather or other events. For example, storage reserve plus some fixed contracts would allow the utility to avoid purchasing on the spot market during temporary prices spikes driven by extreme events.

The other issue with storage facilities is the percentage of storage that's allocated to the GCR customers and the regulated field versus what is available for sale to third parties on a lease or a sale basis. MCAAA has advocated for maintaining a higher percentage for the GCR customers than, for example, MichCon advocated in the last most recent case. MCAAA will continue to review that issue.

In terms of alignment between rate cases and GCR cases, MCAAA has also advocated for a lower percentage of fixed contracts. MCAAA's advocacy has provided the Commission a menu of options on the record that they could adopt. MacInnes commented on some of the benefits of long-term contracts for producers and users particularly in the area of certainty.

c. MEC Grant Amendment Request – Transfer of Funds and Addition of Expert

Bzdok presented that MEC grant amendment request today. The amendment does not involve any funds that were not previously granted. MEC is seeking approval to use funds that were granted for a deferred proceeding for three other cases, one of which was originally the work to date has been through a fiscal year 2012 grant.

Per LARA policy, the case will be closed out in the 2012 grant year prior to the 2013 grant taking effect, if approved.

In the DECO PSCR Reconciliation case, the issue that has emerged is a much higher net expense attributable to purchases and sales in the grid than anticipated. MEC understands that if in a year demand is up, the utility will have to buy more power and will spend more buying that power. That leads to power prices being higher, so you're going spend more because of that. MEC does not understand and the utility cannot or will not explain why their generation would be lower. The loss of generation at a time when demand is higher is leading to more purchases at even higher prices. This has led to a \$171 million variance from plan.

Bzdok explained that some of that is just buying more power, and that's spread across a greater number of units, but they also can't or won't tell us what the contribution to the non-rolled-in portion of their under-recovery is for this year, which amounts to \$96 million. This has led to an extended discovery process and MEC expects vigorous rebuttal. That is the reason for the request to supplement the budget in that case.

MEC is also seeking a transfer of funds to the Consumers Energy PSCR case for 2013. This is developing into a year in which the decisions the company is making will have an effect not only this year, but in the additional years in the five-year forecast. MEC wants to be part of the first defense. For example, the utility is layering its coal contracts in three-year vintages. Now is the first generation of coal contracts that are going to extend fully into years beyond the MATS compliance deadline, even if that's extended for mercury and toxics control. The company is doing a study right now of cycling coal plants in relation to some issues that have been raised in these cases and also issues they're experiencing in the market. This will be an item for discovery.

MacInnes noted that Wolverine Power is looking at repowering the Presque Isle plant in the U.P. He asked if that would affect MEC's analysis with regard to Consumers or DTE plants. Bzdok said they will monitor that but do not have information at this time.

Smith asked Bzdok to comment on possible MATS extensions. Bzdok responded that there is a possibility of hardship extensions to 2016. There are others that could occur as well. However, there are some real decisions to be made and some real planning that needs to be done, and we believe we can advocate on those issues in a more crystalized way.

Bzdok noted that a success emerging from their advocacy is that Zeeland is being run more. Questions remain as to whether it is being optimized but it is clearly being run more. MEC noted in the memo to the board some questions as to why certain projections are coming down now. But MEC will pursue the issues related to optimization of the resource. MacInnes asked about gas volatility. Bzdok noted they view this as a pendulum. The pressure is to move the pendulum from its extreme position back in the other direction.

The Consumers rate case is largely a follow-up on some of the issues that MEC advocated in the last case with UCRF funding. MEC had some significant success. The Commission told the utility to come back with more support. They have run their PROMOD program and purported to demonstrate both the economics of their plan to upgrade and maintain their generation at all five of their big five units. MacInnes asked how that compared to the MISO PROMOD. The MISO model is models interactions over an eleven-state system. But I'm wondering how you just take out a small area, you know, five or seven plants, and really make sense with the rest of the large-scale optimization.

Bzdok noted that is the basis for all the PSCR planning that's done in all of these cases, the one-year plans and then also the five-year forecasts is precisely that relationship. Part of the request is to get approval for the Synapse team to be included on the grant as experts. They will procure other funds to actually hire Synapse to run the PROMOD and do the detailed analysis. It's an opportunity to match funds and increase the rigor of their analysis.

Bzdok also raised issues regarding revenue adjustment mechanism/revenue decoupling issue. It is not a UCPB funding issue but given past board member positions on this issue, they wanted to get direction or feedback on whether the board views this area as controversial or problematic.

Smith commented that his concern is with what is brought to the board for UCRF funding. He doesn't want to give MEC direction in other areas of work.

Smith moved, second by Isely and motion carried to approve move a 2013 UCRF grant for RRC in the total amount of \$90,000 for intervention in the 2013 GCR plan cases for Consumers Energy, MichCon, SEMCO, and MGU.

Smith moved, second by Isely and motion carried to approve the 2013 UCRF grant for MCAAA in the amount of \$25,000 for intervention in GCR plan cases for Consumers Energy and MichCon.

Smith moved, second by Dinkgrave and motion carried to approve the 2013 UCRF grant for MCAAA in the total amount of \$6,000 for participation in two MichCon appeals.

Smith moved, second by Isely and motion carried to approve the MEC 2013 UCRF grant budget transfer as presented in the total amount of \$30,300 from Detroit Edison general rate case to the Consumers Energy general rate case, the Consumers Energy 2013 PSCR plan case, and the Detroit Edison 2011 PSCR reconciliation, including the addition of the Detroit Edison 2011 PSCR reconciliation and the closure of that case in the 2012 grant, as well as the approval of the addition of Synapse Energy as an expert in the cases that they've recommended.

		Grant Amount		Transfer Amount	Amended Grant Amount
Transfer From	DE General Rate Case	\$ 30,300		\$ (30,300)	\$ -
Transfer To	CE General Rate Case U-17087	\$ 30,300		\$ 12,120	\$ 42,420
	CE 2013 PSCR Plan Case U-17095	\$ 37,400		\$ 5,050	\$ 42,450
Addition of Case to 2013 Grant	DE 2011 PSCR Reconciliation Case U-16434-R	\$ -		\$ 13,130	\$ 13,130

**V. Public Comment** – None.

**VI. Next meeting** – the next meeting of the board is scheduled Monday, February 4, 2013 at 1:00 p.m.

**VII. Adjournment** – The meeting adjourned at 4:15 p.m.

*Recorded by:*

*Michelle Wilsey, Board Assistant*

*Utility Consumer Participation Board*

Transcript available.