

UTILITY CONSUMER PARTICIPATION BOARD

April 15, 2013

MINUTES

A meeting of the Utility Consumer Participation Board was held Monday, April 15, 2013, in the Ottawa Building, 4th Floor Training Room, Lansing, Michigan.

I. Call to Order

Jim MacInnes called the meeting to order at 11:12 a.m. Board members present: Jim MacInnes; Paul Isely; Susan Licata Haroutunian; Ryan Dinkgrave and Conan Michael Smith. Members absent: None.

Others present: Michelle Wilsey, UCPB Board Assistant; David Shaltz, Residential Ratepayer Consortium (RRC); John Liskey, Citizens Against Rate Excess (CARE); Connie Groh, CARE; Bob Burns, CARE; Don Keskey, Michigan Community Action Agency Association (MCAAA); Christopher Bzdok, Michigan Environmental Council (MEC); Wes VanMalsen, LARA; Shawn Worden, LARA; James Ault, Michigan Electric & Gas Association; Skip Pruss, 5 Lakes Energy and Ed Haroutunian.

II. Approval of Consent Agenda

MacInnes proposed removal of the minutes from the consent agenda with approval of the remaining items. Smith moved, second by Isely and motion carried to remove the minutes and approve the agenda and remaining consent items.

MacInnes moved adoption of the minutes with the following corrections: p.1. change "Wolverine power plant" to "Presque Isle power plant", p.2. change "Wolverine Power plant upgrade project" to "Wolverine Power/Presque Isle plant upgrade project", p.4. correct spelling of project and he amended his motion to include a correction offered by Keskey on page 5, to change "billions of tons" to "millions of tons". Motion carried.

III. Business Items

a. RRC Grant Request

MacInnes deferred consideration of the MEC request pending the arrival of a representative. He invited RRC to present their grant request. Shaltz explained that the request is for shifting of approved grant funds in the amount of \$8,726 between the Consumers Energy GCR reconciliation Case No. U-16485-R to the Michigan Gas Utilities Case No. U-16481-R. No other cases are affected and no new funds are requested. The reallocation is requested to align funds with case workload anticipated following the filing audit and discovery and preparation for expert witness testimony. Significant issues were found in the MGU case, whereas in the Consumers case, no issues requiring litigation are anticipated.

Smith asked Shaltz if he could discuss the issues in the MGU case. Shaltz noted that one issue of concern is that the Company has remodeled its computer billing system, and is attempting to recover billing error costs from two GCR periods earlier in this case. RRC contends this is not allowed under the statute. There is a separate PSC procedure they could use to ask the Commission permission to correct that billing error. RRC has also discovered problems with the way the company is accounting for lost and unaccounted for gas and gas-in-kind, GIK. The potential disallowance associated with these issues could range anywhere from \$400,000 to \$600,000, which is significant for a company this size. RRC will also examine certain gas purchasing deviations from their

approved GCR Plan. The Attorney General and the Public Service Commission Staff have identified different issues as a result of their audit. So MGUC is a case that could end up going to litigation, which is not expected in the Consumers case this year.

Smith asked about the alternate process available to Consumers for recovery of incorrect billings from previous years and if there was a benefit to using that process over the GCR recovery process. Shaltz responded that Under Act 304, the statute clearly circumscribes which gas costs you can seek to recover under this mechanism. The company may be exploring options for recovering these costs. This is the first way they tried. However, parties are raising objections. Smith asked what the alternative process might be. Shaltz responded that they would have to file a separate application and propose a methodology for recovering it. Accounting and billing complexities involve the migration and treatment of customers. Depending on how they frame this in a new application, RRC may or may not be coming back to the board to present this to you for some funding to pursue it. RRC will keep the board informed as the issue evolves.

Susan Licata Haroutunian and Chris Bzdok entered the meeting.

b. MEC Grant Amendment Request

Bzdok explained that MEC is asking the board to take up the request presented at the February meeting. A decision on the grant request was deferred to a future meeting. The request is for approval for intervention in the 2012 Renewable Energy Reconciliation Cases for Consumers Energy (CE) and Detroit Edison (DE) as well as the 2013 Renewable Energy Biennial Review Proceedings for both companies. The total amount of funding requested for all cases is \$60,600. MEC initiated grant requests to the board for participation in the CE and DE Renewable Energy Reconciliation Cases beginning with their initial 2013 grant application. Given the expected filing timeline, the board deferred a decision until the cases became more immediate. MEC has revised the grant request to include the Detroit Edison and Consumers Biennial Review cases and to reallocate funds to reflect the grantees expectations of importance and benefit. The majority of the funding has been allocated to the Detroit Edison biennial review case with smaller requests for each of the Consumers biennial review, the Consumers reconciliation, and the Detroit Edison reconciliation.

MEC notes that today, Detroit Edison residential customers are paying \$3.00 per month for renewable energy compared to 52 cents paid by Consumers customers. That represents approximately \$30 more per year and \$600 more over the life of the program. The lower rate for Consumers is partly as a result of efforts funded by this board and partly because of some good decisions by Consumers.

MEC will continue to pursue transfer price issues, depreciation and other issues in the reconciliations and biennial reviews. The biennial review we think will be the most important because it is the only case where it is possible to look ahead to future years. That is where the most significant impact can be made. MEC provided charts indicating potential dollar impact. Issues likely will include cost estimates for the self-build RE projects and the magnitude of downward revisions taking into consideration depreciation rates. If no downward revisions are made, then issues such as limits (ceilings and floors) of how many RE projects are utility built and how much is procured from the private market if they are operating at a lower price. The arguments hinge on customers and what are the choices they have and what are the costs that they are going to pay for the mandated portion of their energy portfolio. MEC would like to be in the other cases at a modest funding level to monitor and intervene on any relevant or parallel issues that emerge. The focus and priority will be the Edison biennial review.

Haroutunian asked the reason Edison would not have reduced the surcharges given the experience with the market. Bzdok responded that based on discovery in some recent cases, his understanding of the rationale is that this is a long-term program with uncertainty. MEC believes there are significant trend lines indicating costs are declining that should be weighted as well. Discovery indicates that the company is looking at alternate scenarios and analyzing surcharges. MEC believes sustained pressure is important.

Isely asked what project costs of the \$255 million are capital costs or other costs such as O&M. Bzdok had to verify. Isely further asked if there were decreased capital costs in the Purchase Agreement projects, or is the fact that more energy is being produced than thought. Bzdok felt part is getting more energy out than they thought, part of it is the extension of the tax credits, which were not in some of the initial pricing, and part of it is their own costs and also of the PPA costs were too high. The Commission indicated some support on the latter issue. Bzdok commented that it makes sense that the utilities project high because you can always come down, and also because the way the procurement and construction contracts and purchase power agreements are approved under the Commission rules, that's the cost of which are collected in rates, if it doesn't increase your rates, it's eligible for ex parte approval without a contested case and without intervention. The Commission did not support MEC's position on this issue and MEC does not have any participation in the approval of those PPA prices as long as they're under that original \$126 number. Projections may have been made very conservatively so that it would ease the approval of subsequent contracts and also ease up some of the future proceedings. Smith noted he was very interested in this effort given the significance of the potential savings. Bzdok noted this is one of the issues that deal with both ratepayer protection and environmental benefit.

MacInnes asked Bzdok what form of depreciation was used. Bzdok explained that for the utility built projects, straight-line book depreciation was used. The length of the depreciation schedule is contested. The Commission decided to convene special purpose cases to decide a depreciation rate. Consumers was settled at 29 years. DTE actually shortened the depreciation schedule to approximately 22 years. All components are broken apart, then blended and a weighted average is calculated.

The ability to generate projections and alternative scenarios for future projects, given variables such as the PTC, was discussed and other issues such as the cost of capital for utility and private projects. Bzdok noted the differences in pricing each half of the program. From a ratepayer perspective that is fine if that results in prices that are competitive with each other. The Commission wanted some experience with the contracts to review what is happening in the private developer market. If there is a large discrepancy in price, MEC's concern is that collections for the program should not be inflated to cover utility projects that are overpriced and the 50/50 split should not be supported if the utility is not delivering energy at a price that's competitive with the PPAs.

c. CARE Grant Amendment Request – WPS 2013 PSCR Plan Case

Liskey informed the board that pursuant to recent developments in the case, CARE was withdrawing its grant amendment request. MacInnes noted his appreciation for the cooperation of grantees in managing funds and projects in a more collaborative, strategic way as requested by the board.

d. CARE UCRF Grant 12-03 Extension Request FERC Proceedings

Liskey briefed the board on the status of the FERC proceedings. CARE is requesting an extension of the approved grant for these cases through December 31, 2013. CARE is not requesting additional funds. FERC issued an order April 2nd asking MISO and PJM to make presentations to FERC so that FERC could inform itself on the status of the seams negotiations as they relate to the capacity market issue. The extension would allow CARE to attend the presentations and, if merited by the issues, either file comments or update the previous paper authored by Rose.

Burns provided an update on the core seams issues between MISO and PJM and what they expect to learn from the FERC ordered presentations. Burns explained the difference between power generation costs, transmission capacity costs and congestion charges. MacInnes noted the uncertainty of the impact of opening up a capacity market for Michigan ratepayers. Gaining an understanding of this is important. Liskey noted that FERC had not yet released the schedule. He noted that there are no other parties from Michigan participating in this proceeding at this time. Wilsey noted that for clarity, any approval of the CARE extension should add the proceeding AD12-16-000.

e. Grantee Reports

MISO – Liskey explained that CARE had divided their team to monitor key committees. Ken Rose focuses on the capacity market, which is called the Supply Adequacy Working Group; Bob Burns has been focusing on reliability, and then Connie Groh has been primarily focused in the Planning Advisory Committee. In general, the MISO Committee process works as follows: if issues are identified that impact residential ratepayers, CARE takes it to their assigned sector comprised of public consumer advocates of each state. CARE would then have a one-ninth or one-seventh of a vote, and the sector, depending which committee it is, has one or two votes.

Groh reported that some issues CARE is monitoring in the PAC committee are the MTEP 13 process of planning. For example, CARE formulated recommendations on how each possible scenario should be weighted in the new MTEP plan. Other issues have included the modeling of gas price forecasts, cost allocation and system support resource agreements, the out-of-cycle review process for approving projects, etc. MacInnes asked if the northern area study bringing 2,500 megawatts of base load hydro and large wind and upping the transmission capacity going across the U.P. and down into Michigan was included in that discussion. Groh noted it was on one of the fast-tracks. Liskey mentioned that the Bay Lake Plan that ATC has proposed for Wisconsin and the U.P. is part of the fast-track process.

Burns reported that in the MTEP planning process, CARE is advocating for an increased focus on EPA rules dealing with mercury and toxic emissions and the potential retirements in Michigan and in the region by 2016. CARE also questioned the Rauch model for determining rankings of the scenarios. Demand profiles of Michigan were discussed.

Smith asked grantees to comment on collaboration on the common cases under UCRF grants. Keskey noted that MEC and MCAAA representatives met prior to the settlement meeting in the Consumers

Energy rate case last week and trying to come up with ideas on the new cases where the REF issue will be in the cases again for Detroit Edison. Collaboration ideas included possible joint discovery or a joint motion for compelling answers to discovery. Smith asked if the discussion was leading to a more strategically oriented request for discovery, or a difference division of labor? Keskey and Bzdok confirmed that there is some initial positive benefit. Bzdok noted that they discussed all of the cases but the reconciliation was the focus because it is in the early stages. MEC has done this with the Attorney General as well. They plan to continue discussion. Smith emphasized and MacInnes concurred that proactive collaboration, resulting in better outcomes is expected in the process when the board has approved multiple grants in a case.

At 12:46 p.m., there was a 23-minute recess.

Grants Awarded

Motion by Haroutunian, second by Smith and motion carried to approve RRC Grant Amendment Request to transfer funds from Consumers Case U-16485-R to MGUC Case U-16481-R as presented.

Motion by Haroutunian, second by Smith and motion carried to approve the MEC Grant Request in the total amount of \$60,600 for participation in Detroit Edison 2013 Biennial Review, Consumers Energy 2013 Biennial Review, and Consumers 2012 PSCR Reconciliation, Detroit Edison 2012 PSCR Reconciliation as presented.

Motion by Haroutunian, second by Smith and motion carried to approve the CARE request to extend the end date for UCRF Grant 12-03 to December 31, 2013, and to add Case AD12-16-000 to the approved proceedings.

IV. Board Education

Jim MacInnes introduced the guest speaker. Skip Pruss is the former director of DELEG under Governor Granholm. He has formed an energy consulting company, 5 Lakes Energy. He also served on Dr. Steven Chu's energy efficiency and renewable energy committee and was the chair of the Great Lakes Offshore Wind Council board. Pruss provided a presentation on the feasibility of transitioning fully to renewable energy. The content of the presentation and discussion is included in the UCPB meeting transcript at pp. 70-109.

V. Public Comment

Smith asked MacInnes if there were any business case studies on distributed generation the board could review. Isely noted he had done work in that area and could provide some case studies. MacInnes noted that there may be some interest in the community solar program Cherryland Electric offers. It allows customers to purchase a solar panel located on the company site and the customer gets a credit on their bill and possibly a tax credit. Ault mentioned DTE has a similar program.

VI. Next meeting – The next meeting of the board is scheduled Monday, June 3, 2013 at 11:00 a.m. A speaker from DTE will attend to present on nuclear power.

VII. Adjournment – The meeting adjourned at 2:25 p.m.

Recorded by:

Michelle Wilsey, Board Assistant
Utility Consumer Participation Board

Transcript available.