

UTILITY CONSUMER PARTICIPATION BOARD

February 6, 2012

MINUTES

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

I. Call to Order

Jim MacInnes called the meeting to order at 1:11 p.m. Board members present: Jim MacInnes; Conan Smith; Paul Isely; Jacqueline Jones; Susan Licata Haroutunian. Members absent: None.

Others present: Michelle Wilsey, UCPB Board Assistant; James Ault, Michigan Electric & Gas Association; Don Keskey, Michigan Community Action Agency Association (MCAAA); David Shaltz, Residential Ratepayer Consortium (RRC); John Liskey, Citizens Against Rate Excess (CARE); Christopher Bzdok, Michigan Environmental Council (MEC); Shawn Worden, LARA Budget Services; Wes VanMalsen, LARA Procurement and Budget Services

II. Agenda

MacInnes proposed adding UCPB submission policy as item number 3 under new business on the agenda. MacInnes moved, second by Isely and motion carried to approve the agenda with the addition. Other consent agenda items were accepted as presented.

III. Business Items

1. MCAAA Grant Amendment

Chairman MacInnes invited MCAAA to present their request to the Board. Keskey explained that the amendment was requesting the addition of two expert witnesses, Jerry Mendl and Geoffrey Crandall of MSB Energy, to MCAAA 2012 UCRF approved grant. Keskey discussed the experience and qualifications of each expert. He noted they were not included on the initial application due to commitments they had at the time of application. Haroutunian moved, second by Isely and motion carried to approve the addition of Mendl and Crandall to the 2012 MCAAA UCRF Grant.

2. MEC Grant Amendment

Chairman MacInnes invited Chris Bzdok to present the MEC grant amendment request. Bzdok explained that MEC requests board approval in the total amount of \$60,600 for participation in the Detroit Edison Renewable Energy Depreciation Case and the Detroit Edison Renewable Energy Plan Amendment Case. Bzdok noted that the written request provided to the board described the progress made with Consumers Energy on these issues and the status with Detroit Edison. During the two year plan review for Detroit Edison, there was an attempt to amend the transfer price. The Commission agreed with MEC that DECo could not amend its transfer price in that case. The Commission ordered a technical conference to be followed by a plan amendment case. MEC is requesting funding to participate in that DECO Renewable Energy Plan Amendment Case.

MEC's other request is for funding for the wind depreciation case that the Commission ordered Detroit Edison to open. Bzdok explained that Detroit Edison had relied on Consumers' filing in its wind depreciation case for its proposed wind depreciation rates. That Consumers' wind case was one that the board had funded and, according to Bzdok, one MEC settled favorably. The rates in the settlement were significantly different than originally proposed by Consumers. That settlement has left Detroit Edison with doubtful support for its proposed rates. The Commission opted not to redo the depreciation rates in that case but instead they ordered

a new wind depreciation case on that issue as well. Bzdok noted that those are the two cases arising out of the biennial plan review for which they are seeking funding. According to Bzdok, the new cases should commence within 90 days.

Bzdok also discussed the eligibility of the cases under Act 304. He explained that his analysis begins with Section 47 of Act 295. "That section says essentially that all of the costs, including the capital operating maintenance costs, involved in renewable energy systems shall be recovered under that statute through an incremental cost of compliance. And the incremental cost of compliance is all of those costs minus a number of things, including revenue that's derived from the provision of renewable energy through the PSCR clause. That, and that's what the Commission has called the transfer price, they called it that in a December 2008 order. And the statute says that that price is set by the Commission in these proceedings, which is why we're arguing about it, and then it's multiplied by the number of megawatt hours of renewable energy, and then the statute says, and the product shall be considered a booked cost of purchased and net interchange power transactions under MCL 460.6(j), so specifically defines a broader range of costs involved in renewable energy, the portion at least of which that flow through to the transfer price, as PSCR costs in PA 295. It essentially, that section of PA 295 expands the definition of PSCR costs in 460.6(j) as it relates to the portion of renewable energy that's recovered via the transfer price." He provided an example to illustrate. This analysis was the basis for his initial grant request and for these subsequent requests. They also must raise these issues in these cases so that they can be addressed in PSCR cases.

MEC would like to continue to put downward pressure on the surcharge rates. MacInnes asked Wilsey for comment. Wilsey noted that the board had approved the intervention before as part of a larger grant request. However, since these were new cases they merited additional eligibility review. Asst AG Don Erickson reviewed the memo by MEC and, in a telephone conversation with Wilsey, indicated he agreed with the analysis regarding eligibility of the cases for UCRF funding.

Haroutunian felt the AG follow-up confirmed the board could consider funding. MacInnes asked what depreciation schedules and methods would be used for these projects? Bzdok noted that initially both utilities used 20 year life, straight-line depreciation for wind facilities. This is book depreciation for cost recovery purposes. There is also preferential tax depreciation treatment that was an issue raised in the original Consumers Energy plan case. In regard to cost recovery depreciation, MEC had objected to the 20 year straight-line depreciation and instead argued that average life of the different components was more accurate. Consumers filed a depreciation case to address concerns and their depreciation schedule did move more toward the MEC position. MEC would like to pursue the depreciation issues settled with Consumers with Detroit Edison. MacInnes asked about the taxable depreciation and the treatment in the case. The reason being it has a large effect on the cash flow and ultimately on the internal rate of return on present value for the project. Bzdok noted that the majority of the arguments have dealt with book depreciation, with the exception of the tax issue raised in the Consumers Energy plan case (among many other issues discussed) related to their leveled costs of renewable wind energy. MacInnes discussed some examples of how the accelerated depreciation on a project might allow for the power to be sold cheaper. Bzdok confirmed that was what was previously argued in the original Consumers Plan case and agreed that MEC probably should take another look at it. He felt it would be more productive to look at it in a biennial review or reconciliation as opposed to this special purpose case.

MacInnes asked Bzdok to comment on the avoided cost of capacity of wind farms based on the peaking generator running at a capacity factor of 1-3% cited in the results memo for Consumers Energy. Bzdok responded that the legislation requires that the MPSC set the transfer price. The utility presents a proposal based on a number of forecasts and analysis. However, in the biennial review MEC could not get access to the information on which the forecasts were based. In the 2010 Consumer's Reconciliation MEC learned from the

utility that the capacity forecast is based on the cost of new entry for a gas-fired combustion turbine, a peaking turbine, and my expert said that it has a lower cost of new entry than a combined cycle type facility which lowers that capacity component, which is one of the things that's pushing down these transfer price amendments that the utility is proposing.

The MEC expert says that's not realistic because you wouldn't ever do that, you wouldn't ever use a one- to three-percent capacity peaker to basically provide the capacity for wind plants that have capacity factors of 30 percent and more. So yes, you're getting a lower capacity cost, but it's not realistic because you couldn't run those at those type of levels. He says you would wear them out in about four years. MacInnes asked what amount of incremental cost would that add to the cost of wind, backup cost as proposed here? Bzdok responded they do not know that yet, but that's one of the issues they tend to pursue in the transfer price technical conference and then the amendment case that follows it. MacInnes questioned how realistic building a new gas fired turbine project would be, especially turning it down that low – it couldn't operate – certainly not efficiently.

MacInnes discussed the nature of the grid and operating reserves in place to keep the grid functioning in the event of a disruption or loss of generation. He noted that a wind project going off line would probably provide more notice than say a sudden malfunction at coal plant. He asked Bzdok why a wind project is different than a coal plant? Wouldn't existing backup be able to take care of that loss of capacity? Bzdok responded yes but the setting the transfer price is a theoretical construct which really represents the avoided energy cost as opposed to the cost of the capacity necessary to back up the wind, it's the avoided energy cost; and my expert is simply saying that the way they're setting that capacity component is not an apples-to-apples situation to use these gas peakers, and that's lowering their cost of entry and that's lowering their capacity forecast and that's depressing their transfer price.

MacInnes commented that when you think about the idea, buying a gas turbine project, thousand dollars a kilowatt probably, and running it at one- to three-percent capacity, even if you could do that, and then figuring out the cost of that backup - it will skyrocket.

Isely noted that it's not running it at one- to three-percent capacity at one time, it's one- to three-percent capacity across the year.

MacInnes responded that you'd have to figure that in. Because the costs (capacity and capital) would have to be amortized over a very small number of megawatt hours it would be very expensive.

At an IEEE MacInnes recently attended they said the average cost to backup wind was between .25 and 1 cent, or around .8 cents per kilowatt hour. So, keep that in mind as a data point when you examine the proposals. Isely asked Bzdok to review the timing of the cases. Bzdok responded that he didn't know exactly when but the cases would come up soon. The Commission Order was dated December 20, 2011. He went on to note that the technical conference on the transfer prices shall conclude within 90 days of December 20, after which Edison can amend its plan. So, basically that is mid-late March.

The depreciation case was a similar timeframe so that it is done before the next reconciliation case. The exact date is dependent on when the Company files. MacInnes asked Bzdok to summarize the amount of funding again. Bzdok responded that they were requesting \$30,300 for each case. He also requested that the board consider modifying that to increase the transfer price case amount by \$5,050 and reduce the depreciation case by the same amount, with no effect on the total amount requested.

MacInnes asked Bzdok to discuss a few highlights from the MEC status report update dated January 9, 2012. Bzdok provided a brief summary of cases in the memo, noting in particular the efforts dealing with the coal units and Consumers announcement to mothball seven units. It is a transformational time.

The meeting was adjourned at 1:53 for a ten minute break. Conan Smith entered the meeting.

Motion by Isely, second by Haroutunian and motion carried to approve the MEC Grant Amendment Requests for additional renewable energy cases on transfer price and depreciation, and the total funding for intervention in the cases of \$50,000, to be allocated by the grantee.

MacInnes noted that there is a need to retain some funding but that these are very good areas to pursue and he hopes the grantee is successful. He further complimented the targeted, strategic nature of MEC's intervention. He is more amenable to funding those kinds of things as opposed to a blanket funding. Bzdok expressed appreciation for funding to continue to pursue these issues in the new cases. MacInnes noted that this question of backing up wind is something that needs a lot more transparency, and he thinks MEC's efforts will help with that process.

3. Submission Policy

MacInnes explained that the board sometimes receives requests to consider issues at the last minute. They want to be responsive but also take the process seriously and require some time to review proposals and research requests. So to assure a smooth, open process the board needs some time to review submissions – two to three weeks. He wanted to have a discussion as to reasonable timeline for submission. Wilsey noted that the previous board requested agenda items be submitted three weeks in advance of the meeting. They were flexible if an issue arose on short notice or there was a new development that had to be addressed. However, since this was a new board, the submission policy should be addressed again. Haroutunian commented that approach described by Wilsey was reasonable. Isely agreed with MacInnes that lead time was needed to review and understand the material and questions brought to the board and they could be flexible when urgent matters arose. Smith noted most of the boards he sits on require at least a week lead time and board packets are similar to what is received here. Since he is not a subject matter expert, it takes a bit more time to digest the materials. So he would like a week or two of lead time. Two weeks would be outstanding. He understands that there are decisions that happen that happen to coincide with our meeting schedule and feels flexibility is needed. However, that should be the rarity. He also noted that if things are coming for informational purposes only, then very little lead time, if any, is needed. MacInnes asked Wilsey what her opinion was. She suggested two-three weeks as a standard to at least give notice that they will be submitting or requesting an action item on the agenda. Last minute requests should be avoided unless there are compelling, urgent circumstances. Smith noted that those last minute requests should be an extreme rarity.

IV. Board Education discussion

MacInnes thanked Wilsey for presenting a seminar on the history, structure and regulation of electric and natural gas industries and for making arrangements for the board to attend the IPU Michigan Regulatory Policy Forum. He also thanked Jim Ault with MEGA for suggesting the forum. Wilsey asked the board for comments on further education interests. MacInnes mentioned having an expanded discussion with someone from MISO and more discussion of the grid and regional planning for the grid. Isely noted that there are three or four issues that keep coming up in grant requests and discussions, for example, affiliated transactions, distribution of costs for renewable energy, regional planning and transmission issues, and I see them just coming up over and over again. It is important that the board understand these areas better. MacInnes noted that there is a proposal for 25% renewable by 2025 that may be on the ballot. He isn't sure if the board will deal with that but it would be

worthwhile to learn more about it. In sum, the primary areas of interest are generally the grid, gas, backing up renewables and Isely added affiliate transactions.

V. Public Comment

Bzdok asked the board to reiterate the submission policy. MacInnes said materials for agenda items should be submitted 2-3 weeks in advance, unless there is an emergency. He noted information only items can be submitted anytime prior to the meeting.

Ault noted that there is an industry conference in July called the Michigan Energy Providers Conference. This year it is at Boyne. It would be a good source for gas issues education. MacInnes indicated the board may be interested in attending. Ault agreed to keep the board apprised of the planning, agenda and cost details. Ault further updated the board on low-income energy assistance. He discussed a short-term solution and noted that long-term replacement concepts were in discussion by the Governor and legislature.

VI. Next meeting

The next regular meeting of the UCPB is scheduled Monday, April 9, 2012, 11:00 a.m.

VII. Adjournment

Haroutunian moved, second by MacInnes and motion carried to adjourn at 2:29 p.m.

Recorded by:

Michelle Wilsey, Board Assistant

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Transcript available.