STATE OF MICHIGAN

UTILITY CONSUMER PARTICIPATION BOARD

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MEETING OF MONDAY, OCTOBER 3, 2016

12:41 P.M.

611 West Ottawa, 4th Floor
Lansing, Michigan

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PRESENT: James MacInnes, Chairperson
Conan Smith, Board Member
Ryan Dinkgrave, Board Member
Susan Licata Haroutunian, Board Member (via telephone)
Paul Isely, Board Member (via telephone)
Christopher Bzdok, Michigan Environmental Council (MEC)
Douglas Jester, CARE
Don Keskey, Great Lakes Renewable Energy Association (GLREA) and Residential Customer Group (RCG)
Celeste Gill, Assistant Attorney General
Shawn Worden, LARA
Jim Wilson, LARA
Dave Forsberg,
Michelle Rison, Member of the Public

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REPORTED BY: Lori Anne Penn, CSR-1315
33231 Grand River Avenue
Farmington, Michigan 48336

Lansing, Michigan
Monday, October 3, 2016
At 12:41 p.m.

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MR. MacGINNES: Okay. So I would like to call the meeting to order here and begin with a roll call of the attendees and board members, and maybe we could start on the telephone. So Paul and Susan, do you want to start.

MS. HAROUTUNIAN: Susan Licata Haroutunian, member from Detroit.

MR. ISELY: Paul Isely from Grand Rapids.

MR. DINKGRAVE: Ryan Dinkgrave from Royal Oak.

MS. WORDEN: Shawn Worden representing LARA.

MR. WILSON: Jim Wilson, LARA.

MR. KESKEY: Don Keskey representing Great Lakes Renewable Energy Association and the Residential Customer Group.

MR. JESTER: Douglas Jester, 5 Lakes Energy, representing CARE.

MS. GILL: Celeste Gill representing the Attorney General.

MR. BZDOK: Christopher Bzdok on behalf

of the Michigan Environmental Council.

MR. MacGINNES: And Jim MacInnes, board chair.

Do we have any -- do we have a motion to approve the agenda?

MR. DINKGRAVE: So moved.

MR. MacINNES: Is there a second?

MS. HAROUTUNIAN: Second.

MR. MacGINNES: Is there any discussion about the agenda?

All in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacGINNES: Opposed, same sign. Okay.

(Mr. Smith entered the meeting.)

MR. SMITH: Aye.

MR. MacGINNES: Oh, there's Conan.

MR. SMITH: Sorry I'm late.

MR. MacINNES: Okay. So I thought maybe what we could start with would be, as our normal business item, just so we keep track of our money here, that we start with the comments from LARA on the budget update and the grant award summary. And I think everyone hopefully got a copy of this. It was over there, right?

MS. WORDEN: Yes.

MR. MacGINNES: So I wonder if you could walk us through that, Shawn.

MS. WORDEN: On the 2016 summary, that just lists what's left of your 2016 grants. Jim was in communication with Mr. Shaltz today, and they're going to close out the AY15 grant with a balance of 1,116, and you've closed out the one with the $5.00 balance, too, so that's going to add 1,121 to the FY17.

MR. MacGINNES: Okay. 1,121.

MS. WORDEN: Correct. So on the 2017, your remaining balance is 279,933 available to grant in FY17.

MR. MacGINNES: Okay. 279,733.

MS. WORDEN: 933.

MR. MacGINNES: 933. So that's what we have. Okay. I wonder if you could take us through, and I sent you an e-mail earlier --

MS. WORDEN: You know, and I replied, and I got back an e-mail today saying that it didn't go through and they deleted it, and I'm like, well, what e-mail did you delete. It was our tech place, so --

MR. MacGINNES: Oh, okay. Well, you want me to kind of go over it here?

MS. WORDEN: Yeah.

MR. MacGINNES: I don't think it's

critical today that we have an exact answer, but I --

MS. WORDEN: Okay.

MR. MacGINNES: -- just wanted to -- I was looking through the budget here that you sent for '17, and we're just kind of trying to get a better handle on the math, because some of it I'm little bit fuzzy on, so this would be a good opportunity to help clear it up here for us.

MS. WORDEN: Okay.

MR. MacGINNES: Starting with the FY16 amount, let's use your number here to start with, 1,180,500. Now, that's the -- that was the FY16 assessment amount?

MS. WORDEN: Yep.

MR. MacGINNES: And that, so that was an actual figure?

MS. WORDEN: Yes.

MR. MacGINNES: And that's the total for FY16?

MS. WORDEN: Yes.

MR. MacGINNES: So do we take -- is it that we take that, the FY16, and we use that number to allocate the budget for 2017, or is there an adjustment as 2017 actually comes through, or how does that exactly work?

MS. WORDEN: Well, it's intended that the adjustment will fund your next year's activities, that's the intention.

MR. MacGINNES: Okay. So that's really a good number then, the 1,180,500?

MS. WORDEN: Right.

MR. MacINNES: It's kind of like, okay, here's what happened, and that's what you're going to base your next year on, so that's a good number.

MS. WORDEN: So you get 47.5 percent of that total assessment.

MR. MacGINNES: Right. Okay. So okay. So that was 560,738?

MS. WORDEN: Yes.

MR. MacGINNES: Which is what I got. And then you show 5 percent for administrative fee. And, you know, when I looked back at our 2014 Annual Report, I saw that the 5 percent was the total administrative fee for both the Attorney General and the UCPB, that's the way it was reported on our 2014 Annual Report if you go back and pull the page here. So I'm wonder -- I guess my question is, we subtracted the 59,000, and should we really be allocating the full 5 percent, or should that be 2 1/2 percent would be subtracted from the 560,938?

MS. WORDEN: The 560,738 is separate from the 59,025.

MR. MacINNES: Right.

MS. WORDEN: So no, you don't subtract it.

MR. MacGINNES: But so --

MS. WORDEN: The 59,025, that's 5 percent of that total.

MR. MacGINNES: Okay, of the total?

MS. WORDEN: Yes.

MR. MacGINNES: Okay. So total share of assessment for UCPB and really all the administrative for both the, for both the Attorney General and for --

MS. WORDEN: The Attorney General gets 47.5 percent of that annual assessment.

MR. MacGINNES: Right. But also it's -- okay. If you look at the total number, you've got 100 percent, 47 1/2 percent goes to the UCPB for funding, 47 1/2 percent goes to the Attorney General for funding, that's 95 percent of the total, right, so the remaining is 5 percent for administrative?

MS. WORDEN: Correct.

MR. MacGINNES: And I guess I just assumed, is that -- I just thought that that would be, I guess, I mean split between the AG and the --

MS. WORDEN: No. That's for like your

parking passes, your board travel, and any LARA administrative costs that fall in there.

MR. MacINNES: Okay. And how come the AG's office doesn't get any administrative money?

MS. WORDEN: They get their 47.5 percent to do with what they're going to use it for.

MR. MacGINNES: So but you don't get on top of that any administrative fee?

MS. WORDEN: No.

MR. MacGINNES: So that's just for us?

MS. GILL: (Nodding affirmatively.)

MR. MacGINNES: Okay. I wasn't sure about that. Okay.

MR. DINKGRAVE: Don't go giving our bank any ideas here.

MR. MacGINNES: No, no. If that's the case, I would take --

MS. GILL: Well, I think the statute anticipates you guys being reimbursed for travel and all of that.

MR. MacGINNES: Yeah, yeah. No, that's fine. I'm just trying to track the money so I can understand where the money comes in and where it goes --

MS. WORDEN: It will go for like the court reporter purchase order, your board assistant purchase order, treasury fees.

MR. MacGINNES: So that's all UCPB admin, it's no admin for you guys, for the AG's office?

MS. GILL: (Nodding negatively.)

MR. MacGINNES: Okay. So you don't get any?

MS. GILL: No.

MR. MacGINNES: Sorry. Okay. So that means that -- well, basically what we have to spend is 560,738 --

MS. WORDEN: Yes.

MR. MacGINNES: -- less what we've granted, right?

MS. WORDEN: Well, then you take that 560,738 and you have to subtract the 70,905.

MR. MacGINNES: Yes, right. Right. We've got to subtract that because that's what our payment is going to be to pay back our debts to the AG. Okay. So basically we're 560,738, less the 70,905, less the 212,100; is that right?

MS. WORDEN: Correct.

MR. MacGINNES: And that should be -- and then but we're going to get an extra little bit from --

MS. WORDEN: Add back the 1,121.

MR. MacGINNES: Okay. I'll do that in a

minute here. So let's just do that, I just want to make sure. And then I have another question on that. Okay. So 560,738 minus 70,905 minus 212,100 equals 277,733.

MS. WORDEN: And you have to add back that 1,079, too, from the AY15 --

MR. MacGINNES: Right. It was a thousand -- what was the exact amount on that again?

MR. SMITH: It's 1,079.

MR. MacGINNES: One thousand --

MS. WORDEN: 79.

MR. MacGINNES: 079. Okay. 278,812, there it is. Perfect. Okay. So that's the amount of money that we have remaining. Okay.

Now, I didn't understand where this -- I get -- maybe what really got me going on this thing was where is the 750, 750,000? It says PA 268 of 2016 allocated amount.

MS. WORDEN: The 750,000 is the amount of your allocation. So you can only -- you're only allowed to spend up to 750,000 this year, but since you only have 560 in revenue, and we take that revenue and the admin revenue, that's 619, subtract the amount that you're --

MR. MacGINNES: Allocated.

MS. WORDEN: -- allocated, and that's your unavailable, you don't even have that revenue to spend with.

MR. MacINNES: Okay. So now, how is that allocated, who decides that, how does that get --

MS. WORDEN: Legislature.

MR. MacGINNES: Oh, they do. So that's in -- I opened that up that Public Act and I started reading the hundred pages or whatever was there and so I didn't really drill into it. So the legislators each year will tell us what that number is?

MS. WORDEN: Yes. Like this year it was 750, I think last year it was 750, and prior years it was 950.

MR. MacINNES: Okay. Right. Okay. Does everybody -- anybody have any questions on that? It was just me. Thank you for taking me through that.

MS. WORDEN: That's okay.

MR. KESKEY: The only obvious question I had, which probably is not needed to ask even, is that some of the grantees still have to submit through September their --

MS. WORDEN: Yes.

MR. KESKEY: And I think what is it, the mid-month deadline or something like that?

MS. WORDEN: The 13th.

MR. WILSON: The 13th of October we

need the bills by.

MS. WORDEN: That's the prior year funds, it has nothing to do with the '17.

MR. KESKEY: I see. Yeah. And then, also, though, there have been administrative extensions on, you know, if you have a case that's still going on, and that's not part of this either, that doesn't affect your 2017?

MS. WORDEN: No. But if there are any FY16 grants that are going to be closed out with the remaining amount, then that would become part of your --

MR. MacINNES: That would be a credit?

MS. WORDEN: -- unencumbered funds.

MR. MacINNES: So if anybody hasn't used the money, we'll take it and reallocate it.

Okay. So then we have a summary here of the grants that, the '17 grants, the total 212,100. Does anybody have any comments or questions about those?

Okay. So I don't know if there's anything we need to approve on this, but I really appreciate your helping us understand our money.

MS. WORDEN: No problem.

MR. MacGINNES: We don't want to get in trouble. We don't want to spend more than we have --

MS. WORDEN: Right.

MR. MacGINNES: -- just kind of not knowingly do that.

Okay. Well, let's go on to the business item here, and this would be from the Great Lakes Renewable Energy Association, and this was a letter from Don on September 13, and it's an extension, grant extension for Case U-17920. So you want to tell us about that, Don.

MR. KESKEY: That's a case that's awaiting a proposal for decision, and so there would be exceptions and reply to exceptions due in the coming weeks or months, and so there's a portion where we're finishing up our invoices through September 30, so some portion, it's not a large portion, but some portion is that request to extend until the case is submitted, you know, through the PFD briefing process.

MR. MacINNES: And those funds would come out of --

MR. KESKEY: The existing budget, in other words --

MR. MacGINNES: -- the existing budget.

MR. KESKEY: -- 2016 budget, would not impact 2017.

MR. MacGINNES: Okay.

MR. KESKEY: And it's my understanding

that that's been administratively approved, that extension for that case.

MR. MacGINNES: All right. Okay. Anything else on that?

MR. KESKEY: No.

MR. MacGINNES: Do we have a motion to approve this extension?

MR. SMITH: So moved.

MR. DINKGRAVE: Support.

MR. MacINNES: Is there any discussion? Hearing none.

All those in favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacGINNES: Opposed, same sign. Okay. That motion passes.

Okay. Let's talk about board compensation here for a minute. We brought that up last time, we just kind of touched on it, and recognizing that this money is, you know, it comes from the, well, ratepayers, but via the utilities, and here is a copy of the Act, it's on our web page, and if you look at the information on item 12, it says: A member of the board may be reimbursed for actual and necessary expenses, including travel expenses to and from each meeting held by the board, incurred in discharging the member's duties under this section and Section 6m. In addition to expense reimbursement, the board member may receive remuneration from the board of $100 per meeting attended, not to exceed $1,000 a calendar year. These limits shall be adjusted proportionately to an adjustment in the remittent amount under Section 6m(4) to allow for changes in cost of living. So the Act does provide for some compensation for board members doing -- getting ready, preparing for the meeting, that sort of thing, driving down, what have you.

So I just thought, given the work that we do for these meetings, that we ought to at least talk about it and see what the pleasure of the board is on some compensation for board members. And it was -- I guess what really brought it up is my discussion with Senator Nofs' office and all those people about compensation and the fact that we weren't getting any, but that we were entitled to compensation if we wanted. So.

MR. SMITH: So I said this at the last meeting: My preference is that the board adopt a policy of compensation and then allow individual board members to administratively opt out of that should they so choose. In part, that creates some equity for folks; if you don't need the compensation or you don't want the compensation, that's one thing, but if you have to leave an hourly job to participate in doing your duty as an appointee, I think it's a nice counterbalance to that possibility. We do that at Washtenaw County, all of the commissioners are afforded a per diem for the meetings that they go to, most of them don't take it, but some of them do because it's meetings that are in the middle of the day like this one. I think for someone like you, Jim, you're probably missing an entire day's work to drive here, do a three-hour meeting and get home.

MR. MacINNES: So what's the level that you've seen, what was the level --

MR. SMITH: So at Washtenaw it's $25 a meeting, but obviously all of our meetings are local and most of our meetings are an hour long. So that -- well, that's just context I guess.

MR. MacGINNES: Okay. Are there any other comments or thoughts?

MR. DINKGRAVE: Well, I'll concur with what Conan said, I think that's a good idea, the way he proposed doing it, having an opt out if somebody chose to. I think my position before is still the same: My employer allows me to, the time to be here and everything, so I would probably, if we did have one, I would probably turn it into a donation there, so that would be fine with me.

MR. MacINNES: All right. Do you have any thoughts on what the limit should be if there is something adopted?

MR. ISELY: Have we calculated what is possible under the law given the -- it's not given, it's actually a fraction of the remittance?

MR. MacGINNES: Well, I think it says here that it's, that it shouldn't exceed $100 per meeting.

MR. ISELY: Right.

MR. SMITH: Adjusted.

MR. MacGINNES: But adjusted for inflation, and I'm not sure exactly when inflation would start.

MR. ISELY: It's adjusted -- the way they state it, it's adjusted by how much the income has changed between 1985 and now.

MR. MacGINNES: Right.

MR. ISELY: And I don't know that number.

MR. MacGINNES: That's a big number.

MR. ISELY: Well, the --

MR. MacGINNES: Probably way big, way too big.

MR. ISELY: If it was just the CPI, it

would bring us up to about $220, but it could be different from that.

MR. MacINNES: Uh-huh. Well, I think -- I know, Chris, you did some work on the escalation since then. Wasn't it about 2.8 percent a year?

MR. BZDOK: Yes, you read my mind, and I'm looking for it. And I have inconsistent habits in terms of what I save on my server versus what I save on my C drive, and I'm thinking at this point it's on my server, but I certainly can provide that, or maybe I can -- maybe I can wire in and provide that if you all are still talking about it.

MR. MacINNES: I think it was 2.8 percent a year.

MR. BZDOK: I think that sounds right.

MR. MacGINNES: So that would be a pretty big number, which I think is probably too big.

MR. BZDOK: Another way to kind of I think ballpark it is to ballpark that original amount in the statute, which is in your hard copy, and then ballpark in your number and take the same ratio between them. Right?

MR. MacGINNES: The number --

MR. BZDOK: So in the statute, in the original statute which you have in front of you --

MR. MacGINNES: Oh, uh-huh, yeah.

MR. BZDOK: -- it says it's some number for --

MR. MacGINNES: Oh, it's $300,000.

MR. BZDOK: And then it has some language about then tied to the cost of living in the Detroit area moving forward. And so I think it's 300 for each.

MR. MacGINNES: Right.

MR. BZDOK: And now that assessment amount is up to 1.18, so it's probably about that same ratio.

MR. MacINNES: Right. So it's a big number.

MR. BZDOK: Almost double, not quite.

MR. MacINNES: Yeah. Okay. So it's probably safe to say that it's 200 or above.

MR. ISELY: (Inaudible.)

THE REPORTER: Excuse me. Can you turn that up?

MR. MacGINNES: Oh, sure. I'm going to turn this up a little bit.

THE REPORTER: Thanks.

MR. MacGINNES: Say it again, Paul.

MR. ISELY: It's just a little less than 200, given those numbers.

MR. MacGINNES: Okay.

MS. HAROUTUNIAN: I have a question.

MR. MacGINNES: Yes, Susan.

MS. HAROUTUNIAN: Is it if you didn't take the compensation, could it be turned in to the fund? I know it wouldn't be much in terms of that, but at least it would be -- make it a little bit bigger.

MR. MacINNES: I think it would automatically remain in the fund, as far as I know.

MS. HAROUTUNIAN: Okay.

MR. SMITH: I would hazard a guess that the compensation would come from the administrative share and not impact the grant amount available.

MR. MacGINNES: That may be.

MS. HAROUTUNIAN: And so that would leave it for other administrative expenses, then?

MR. SMITH: Right.

MR. DINKGRAVE: One could make a donation to the fund, though, couldn't they?

MR. ISELY: Well, any administrative piece that we don't use ends up back in the fund, in the carryover fund, right?

MR. MacGINNES: Well, the 5 percent for administration, though, that's not, I don't think that's allocated to the fund.

MR. ISELY: What happens if we don't spend it all?

MR. MacGINNES: I think it gets used for administration by LARA.

MR. ISELY: Okay.

MR. MacGINNES: That would be my guess. I don't think we're talking huge dollars here, but those are good questions.

MS. HAROUTUNIAN: I think it would be worthwhile to really know what happens to it if it's not used by the individual.

MR. MacGINNES: I wonder, can we get someone to answer that today?

MR. WILSON: On the admin piece?

MR. MacGINNES: Yeah.

MR. WILSON: I can go ask Shawn if she knows if there's any recovery. I'm guessing what you said is correct, because I know at a time, I mean they asked me to track hours that I spend on your stuff versus my normal work, so I'm guessing you're right, the 5 percent, but I can go see.

MR. MacGINNES: Well, if you could check, I think it would be -- I'd like to -- I don't want spend three meetings on this if I can help it. So if there's a way you could check while we --

MR. WILSON: Okay. I'll go see.

MR. MacGINNES: -- while we discuss it some more. But good points. So let's say that is the case, let's say it does go, it's part of the 5 percent, which seems like it would make sense.

MS. HAROUTUNIAN: Yes.

MR. MacGINNES: What other questions or thoughts or, you know, the levels of compensation do you think would be --

MR. SMITH: So then that sort of asks the question, what are we -- what's encumbering that 5 percent right now, and is there give in that fund, and if there's not, then we have to cut something if we want to -- if we're going to add additional expense, we're going to have to cut an expense somewhere else.

MR. MacGINNES: And I guess we don't know what the answer to that is, but you can help us with it.

MR. SMITH: I mean some of it is our administration, right, Lisa's contract?

MR. MacGINNES: Right. Which -- oh, well, that brings up another topic. It didn't work out with Lisa.

MR. SMITH: Oh. Well, then we have money to spare.

MR. MacGINNES: So unfortunately that

didn't work out, so we have not extended her contract beginning October 1. And --

MR. SMITH: Well, that creates flexibility, if nothing else.

MR. MacGINNES: Right.

MR. SMITH: So we can budget that contract according to our available funds, then.

MR. MacGINNES: Right.

MR. DINKGRAVE: I think Conan's question is right. But also after, not just us having the availability of it, but if we can get more of a benchmark of where other boards with similar time obligations and frequency of meetings that do compensation for comparison.

MR. MacGINNES: Okay. So you want to do some more research on it?

MR. DINKGRAVE: (Nodding affirmatively.)

MR. MacGINNES: Okay. Any other comments?

MS. HAROUTUNIAN: One other, and this is probably silly. But if people after us decided to up the number of meetings drastically, would that change the picture as to whether or not to compensate for the increased meetings, both because of the expense of it, would it be too expensive, and maybe it's just too big a drain on what we have to work with?

MR. SMITH: So there's a statutory cap right now of $1,000 per year which would be adjusted alongside the per meeting allowance, so if we're talking essentially in the double range right now, worst case scenario, you're talking $10,000 that would be encumbered from that administrative fund.

MR. MacGINNES: Right. So the cap resets the limit on it.

MS. WORDEN: Hello, I'm back.

MR. SMITH: Hi, Shawn.

MR. MacGINNES: Hi, Shawn. So we have Shawn back here to clarify. We're talking about this -- sorry to have to drag you back here.

MS. WORDEN: That's okay.

MR. MacGINNES: We're just trying to better understand, we've got the statute here, and we're talking about board compensation and what, how, where that money would come from, whether it would come from the 5 percent amount or where, you know, how that would be. Because typically, as you mentioned, things like the mileage fees and the parking come from that 5 percent. Is it safe to assume that board compensation, which would be, well, at least in the statute it was contemplated $100 per meeting, not to exceed $1,000 for each board member in any year.

MS. GILL: I just actually located it in the statute. Under MCL 460.6m(10), it says: The cost of operation and expenses incurred by the board in performing its duties under this section and Section 6l, including remuneration to board members, shall be paid from the fund. A maximum of 5 percent of the annual receipts of the fund may be budgeted and used to pay expenses other than the grants.

MR. MacGINNES: Okay. So it would be within that 5 percent?

MS. GILL: Yeah, yes.

MR. MacGINNES: Okay. So I guess that's the answer.

MS. WORDEN: Yeah.

MR. ISELY: But that still sounded like we can spend less than 5 percent on administration. Is that so?

MS. WORDEN: Yes.

MR. ISELY: And that money would stay in the grant fund side then?

MR. MacINNES: Well, but I guess the 5 percent is it allocated --

MR. ISELY: It's budgeted, it's not allocated.

MR. MacGINNES: Or it's budgeted, yes.

MR. ISELY: And if we don't spend it all, then it's still part of the overall kitty, isn't it?

MR. SMITH: Should be.

MR. BZDOK: There used to be an overall kitty, and now there are two --

MR. MacGINNES: The UCRF, yeah.

MR. BZDOK: -- and so the question is, where does the leftover 5 percent land, and that question may not have been answered since that interpretation changed. I'm sorry to butt in.

MR. MacGINNES: Well, I think that -- I mean you all put in some hours on our behalf, right?

MS. WORDEN: Uh-huh.

MR. SMITH: You got to come to these meetings at least.

MS. WORDEN: Yeah. And they basically -- they allocate some of our admin overhead, too, so it's not just the -- like the board expenditures, that 5 percent, it's like all of LARA admin, too.

At the end of fiscal year '15 where we came up with the negative balance, 273,000, I think there was a remainder of 11,000 something that we just moved from the admin portion to the board portion, and I know in the past Al has moved money from the admin portion to the board portion, to your grant portion, so --

MR. MacINNES: Well, and also we're going to need some money for -- to complete the Annual Report, which you didn't do in -- well, we didn't do one in 2015 yet, we need to do that, and I've been talking with LeAnn about having you help us do the 2015 Annual Report.

MS. WORDEN: Oh, I'm sure I sent that information to somebody.

MR. MacGINNES: Well, you did, but it didn't get completed. Okay.

MS. WORDEN: Oh, okay.

MR. MacGINNES: So we had, as you may know, we had contracted with Lisa Babcock to do that, and unfortunately it didn't work out for her, so she's no longer working for the board.

MS. WORDEN: Okay.

MR. MacINNES: So I think we need to get it done, which is probably going to take some of LARA time, and LeAnn said she thought that LARA could help us with that. So there would probably be -- so you keep track of -- I guess the bottom line is you keep track of what work or, you know, what you spend in support of the board, right? That's what it sounds like.

MS. WORDEN: Yes.

MR. MacINNES: So I guess the question

that we're asking then is, is there money in there to, in that 5 percent to still take care of what you do and yet compensate the board for what it does?

MR. SMITH: Sounds like last year we had an administrative -- we had administrative support from LARA and we had our own assistant for the full year, right?

MR. MacGINNES: In -- well, not for -- well, yeah, I guess all of 2015, yeah.

MR. SMITH: And there was still about 11,000 remainder there, so I think there's probably enough give to --

MR. MacGINNES: Right. Good point.

MS. WORDEN: And there could be more. We've talked about in our budget area moving some of the, some of the overhead costs that were just automatically allocated to that fund, so it's spread across all funds, about paying those costs with a different fund, so once the fiscal year has ended and they've moved everything around, we'll have a better idea, with Al's permission, to move money back from the admin area to the grant area.

MR. SMITH: So let me throw something out on the table. I think a $125 per meeting, whatever you call it, not a fee. What's the opposite of a fee?

MS. WORDEN: Compensation.

MR. SMITH: Compensation for each board member, but I think the chair should get 200. You're doing, Jim, a lot more work than we are, and because you're doing that extra work, we don't have to, which has been a blessing to me honestly, so I prefer to see the chair sort of carry on that obligation, but also have that obligation recognized through the compensation.

MS. WORDEN: That would have to be changed by law since it's in the statute, right?

MS. GILL: As far as the --

MS. WORDEN: The amount of the compensation.

MS. GILL: Well, the statute, when it was enacted, anticipated a $100 per meeting and then 1,000 per calendar year limit, but it's also adjusted, you know, it can be adjusted over time to allow for the change of cost of living. So so long as those numbers are within that -- under that adjustment, then sure, that's fine. And I guess we probably want to be sure what that number, to the best of our ability, would be just to make sure you're under that adjustment.

MR. MacGINNES: Well, we looked at that pretty good when we decided -- when we identified how much things had changed since 1982, it's a big number, so I think, you know, 125 or whatever, 150, it's probably --

I think that's -- I guess I feel pretty comfortable based on the math I've done that that's --

MS. GILL: Well, I would just think for your own records you want to make sure you put it on your -- put it in the record what, you know, to make sure.

MR. MacINNES: What the exact number is.

MS. GILL: Yeah, so that you can show that you're under your limits.

MR. MacINNES: Okay. Anymore discussion about the --

MR. SMITH: Could I lay that out as a motion? Ryan, would you be comfortable with that, because I know you were looking for additional research, but --

MR. DINKGRAVE: Yeah, I think it sounds like a reasonable amount, and if you think our budget can handle that.

MR. SMITH: So that would be, end up being -- Paul does better math than me -- but maybe seven grand.

MR. ISELY: Yeah, it's, let's see, I have calculated it out 100 and 200, 100 and 3,500 a year 7 meetings and 5 people, so that's around 4 grand.

MR. MacINNES: Okay. So we have a motion

and support. Is there anymore discussion on that?

MR. ISELY: Do we have to put in a qualifier that it's conditional, I mean because his motion had more for the chair, and that amount is close to the amount that is probably permissible by law? Do we have to put it this is conditional on that number being checked perfectly?

MR. MacGINNES: Probably, yeah, I think we should.

MR. SMITH: Right.

MR. MacINNES: But I guess I would propose, you know, to have a difference, I don't think that makes -- I'm not comfortable with that. So I just would say, hey, set it at $150 across the board, if you want to take it, you take it, if you don't want to take it, you don't take it. Simple. Everybody gets the same.

MR. SMITH: So I haven't made a formal motion yet, so why don't I move our per meeting compensation be set at $150 per meeting, and that board members are allowed to refuse that --

MR. MacGINNES: Opt out.

MR. SMITH: -- opt out of that compensation by alerting LARA. I think they're the right person to alert.

MR. MacINNES: And then not to exceed --

MS. WORDEN: Would be Jim.

MR. MacINNES: What about the not to exceed, that would be what, $1,500, then, in the calendar year, if we're proportional?

MR. SMITH: Oh, yes. So $150 per meeting, not to exceed $1,500 in a calendar year.

MR. MacINNES: With the ability to opt out.

MR. SMITH: With the ability to opt out, so those three things.

MR. MacGINNES: And then also that we should verify that that, subject to verification, that that falls within the adjustment contemplated under Section 6m(4).

MS. HAROUTUNIAN: I had one other question.

MR. MacINNES: Okay.

MS. HAROUTUNIAN: Does the 150 include the mileage payment that we get now?

MR. MacINNES: No --

MS. HAROUTUNIAN: -- or is that separate from --

MR. MacGINNES: That would be separate.

MS. HAROUTUNIAN: Okay.

MR. MacINNES: Okay. Do we have clarity

on that motion?

MR. SMITH: I'm clear.

MR. MacGINNES: Is everyone clear? Any other discussion about that motion, clarification, questions, challenges? Okay.

All those this favor, please say aye.

BOARD MEMBERS: Aye.

MR. MacGINNES: Opposed, same sign. Susan, I didn't hear your vote in there.

MS. HAROUTUNIAN: Yes, I said aye.

MR. MacINNES: Okay. So that was unanimous. Okay. So we'll check that and make sure that that falls within the 6m guideline.

MS. GILL: 6m(10) just to --

MR. MacGINNES: Okay.

MR. SMITH: Just --

MS. GILL: Oh, sorry, no, that's wrong. That's for dealing with the 5 percent. It's 6m -- or is it 6l?

MR. SMITH: From our last Annual Report, our 1982 allocation was 630,600, and our 2014 allocation was 1,204,750, so 150 should be well within that.

MS. GILL: Sorry. It's MCL 460.6l(12).

MR. MacGINNES: Oh, 6l?

MS. GILL: Yeah, 6l, that's where the

actually may be reimbursed part, and then the 6m is just where it comes from.

MR. MacGINNES: Okay. So but does that, what he just said, does that make sense to you, that it should be pro rata based on what's happened since the original allocation?

MS. GILL: Okay, I'm sorry, I was looking at --

MR. MacGINNES: Why don't you say that again, Conan.

MR. SMITH: I was just noting, I think Chris had sort of pointed this out as well, that a good way to just ballpark that is to look at what the 1982 allocation was compared to the most recent allocation, so we'll see the --

MR. MacINNES: And the number was?

MR. SMITH: 630,600 in 1982, 1,204,750 in 2014.

MR. MacGINNES: No. Say that again. So 600,000 -- say that again.

MR. SMITH: 600,000 -- or 600,600 in 1982.

MR. MacINNES: Okay. Let's write that down. 600,600.

MR. SMITH: Excuse me.

MR. MacGINNES: 1982.

MR. SMITH: No, Jim, I even said that wrong.

MR. MacGINNES: Okay.

MR. SMITH: 1982, 630,600.

MR. MacGINNES: 630,600, 1982. Okay.

MR. SMITH: In 2014, 1,204,750.

MR. MacGINNES: Okay. Let's do the math on that real quick.

MR. ISELY: We're well in the clear.

MS. GILL: I'm just curious, this is, I'm assuming, the fund, the fees, the amount of the fund?

MS. WORDEN: That's like the assessment.

MS. GILL: The assessment. Okay. And when they adjust the assessment, what's the adjustment for the assessment based on?

MS. WORDEN: It's based on the CPI, the Detroit CPI.

MS. GILL: Okay. Now, is cost of living -- I'm not an expert in this, I just recently have been looking at all these different cost of living or Consumer Price Indexes, and I know that there's a lot of them within the umbrella of the Consumer Price Index, so does the cost of living adjustment follow the Consumer Price Index?

MR. ISELY: It depends on how it's defined. This is Paul Isely, I'm an economist, so I do these all the time. But this one was specifically I thought in the statute attached to the dollars in the, that came in, as it was worded.

MS. GILL: Okay.

MS. WORDEN: Correct.

MR. MacINNES: I think that's right.

MS. GILL: Okay.

MR. MacGINNES: So the number came out to be like 1.9 or something, so we're at 1.5, so that should be well under, and that's my understanding. Because we've done a lot of this math in looking at, talking to the legislators about how big, trying to get some more funding, so I've been through this math exercise quite a few times, and I know Chris has, too, and I think the number that came up quite a bit was 2.8 percent a year if you go through and back out the numbers. Which you did, right?

MR. BZDOK: Yes.

MR. MacGINNES: For back, all the way through 1982?

MR. BZDOK: Yes. And that was based on the same Annual Report figures that Conan just cited.

MR. MacGINNES: Right. So I think we're

pretty safe here. And I don't want to make a big production out of it, but I do think compensation is in order.

MR. ISELY: Can we have whoever we're supposed to say whether we're opting in or opting out send us an e-mail that we could reply to so that we can opt in or out of it?

MR. MacGINNES: I guess to me I would handle it with, like we do with the travel voucher. I mean I don't know, can we do that?

MS. WORDEN: We can get with LeAnn and find out if there's a form.

MR. MacINNES: I mean just a voucher that -- because I know for five years, I didn't take any travel for five years, so -- and I just, you know, I mean now I take it, but I just sign it, and if you want to take it, you can take it, if you don't want to take it, you don't have to take it. It's between the board member and LARA.

MR. ISELY: Uh-huh.

MR. MacINNES: Okay. Anymore discussion on that business item? Good. Good discussion, good questions. Thank you. We're good. Good input.

MS. WORDEN: If you need me, he knows where I am.

MR. MacGINNES: Thanks, Shawn. You've done good, done a good job for us here.

Okay. Reports. So this is a good opportunity here to do reports since we don't have a lot on our plate right at the moment. So I guess -- I was hoping that John Liskey would be here.

MR. JESTER: He was unable to, and asked me to convey his apologies, and I'm prepared to give you a bit of a report.

MR. MacGINNES: Okay. Well, I know you're well qualified as well. But I'm very anxious to learn more about how the UPPCo case turned out. I have some preliminary information on that, but so go ahead.

MR. JESTER: Sure. Since your last meeting, the Commission issued orders in U-17895, which was the UPPCo general rate case, and in U-17911, which was the 2016 PSCR plan case, both of which we, CARE entered funded by the board, and you will recall that in the general rate case, we also donated some work on the issues that are outside of Act 304.

The power supply cost recovery issues that we argued in 17911, also substantially the same issues we argued in 17895, the general rate case, just that they play through into the rates in slightly different ways, so we needed to address them, you know, in both cases. We were not particularly successful in the cases. The recommendations from the administrative law judge and then the Commission order itself did not adopt the positions that we recommended, mostly because the situation we're in reflects past decisions by the Commission and it's hard to persuade them to overturn those, if you will. A major part of the issue is that UPPCo does not generate very much power itself, and most of their power supply was coming from a power purchase agreement with Wisconsin Public Service Company, which, you know, we argued was uneconomic and, therefore, imprudent and unreasonable at this time, but that agreement was essentially 13 years old at this point, had been approved by the Commission, you know, long ago. There were renewal provisions that had been exercised by UPPCo prior to its sale (inaudible) the sister company, Wisconsin Public Service. So we were arguing essentially that they had opportunities they should have exercised to terminate that contract, and they didn't, and the Commission wasn't persuaded on that point.

There is, however, good news as well. In the general rate case, largely related to issues not within the board's purview, we believe that our intervention reduced the total revenue for the company on the order of $950,000 a year.

And then on the power supply cost recovery front, just last week the, the 29th, UPPCo filed their 2017 power supply cost recovery case, which is U-18147, and you've already authorized us to intervene in that case funded by the board. Preliminary review of the filing in that case, they appear to have adopted the position that we took with respect to their power supply arrangements, so they're unwinding the Wisconsin Public Service contract. In 2015, they had 56 megawatts of capacity under that contract during the peak months, summer months, and 50 the rest of the year, we argued that that was too much; they're proposing to go out with a request for proposals for only 30 megawatts of capacity in replacement. So in terms of the big issue that we viewed that prices in that contract to be out of market and the amount of capacity under contract to be excess to their needs, it appears on first reading, you know, that they are acting as though they agreed with us, and as a result, the power supply adjustment factor that they proposed for 2017, which still doesn't reflect full unwinding of that contract, is a negative 4/10 of a cent per kilowatt hour. So it may be a case where we can't claim success in the instant case, but in the longer game, we're making ground.

MR. MacGINNES: And the AG's office was

not involved in this case; is that right?

MR. JESTER: Correct. And we're still reviewing the decisions. Don Erickson, who argued the cases for CARE, was on vacation until recently, so he's taking a look.

MR. MacGINNES: Okay. Well, saving a million dollars is, that's important. We want to keep good track of that, what we've saved, so that we can report out on it.

MR. SMITH: Do you have any sense that there'll be legislative intervention in the U.P.?

MR. JESTER: At this point, I doubt it. I also doubt there'll actually be an energy package passed this year, though it could happen, it's not out of the realm of possibility. But there's nothing in current bills that would particularly, specifically affect the U.P. There are a couple of MISO matters that I'll report to you in a moment that might also affect the Upper Peninsula.

MR. SMITH: It was interesting to just watch some of the campaigning in the U.P. The need for lower rates is universally acknowledged, like it is a decidedly nonpartisan or even bipartisan concern; the solution that seems to be differentiated, you know, whether we do the kind of work that UCPB has been doing in order to hold the utility accountable or whether you offer alternative options for those residents to get power from another utility, in essence creating competition in that marketplace, did any of that enter into the conversation?

MR. JESTER: The legislative conversation?

MR. SMITH: Well, the, just the tension between, you know, capping costs at the utility versus, or -- and/or introducing competition into that marketplace?

MR. JESTER: Well, it's certainly been in the Upper Peninsula political discussion, I share your observation on that. I have not observed it in the legislature.

MR. SMITH: Okay. And it didn't come up in the case itself?

MR. JESTER: No. It's really outside of the scope of the case.

MR. MacGINNES: Any other comments or questions on this? We spent a lot of money intervening in these cases. How much was it, 90,000?

MR. JESTER: Something like that. John does that, the budget. I don't know.

MR. MacGINNES: Any other comments or

questions about that?

MR. JESTER: Would you like to hear about MISO?

MR. MacGINNES: I would, yes.

MR. JESTER: So three things to report, all of which potentially influence Upper Peninsula generally, not just UPPCo. A portion of the power supply costs for several of the utilities are related to these system support resource payments, one of which was for the White Pine No. 1 plant, it's extreme western end of the Upper Peninsula, and that plant was necessary for voltage support in the transmission system in the western end. Then, you know, many things going on with respect to SSR payments, which I won't recite. But out of that, those discussions, the Michigan Agency for Energy, headed by Valerie Brader, and the ACT came to agreement on a change in the transmission network in the Upper Peninsula that would enable the White Pine plant to be closed and still provide adequate support. And so it's a low-cost change, it's a change in the topology from essentially a network to a tree structure, if you will, so that is a, something in the neighborhood of a million and a half dollars a year that will not have to be paid by the various utilities.

In addition, the Michigan Agency for

Energy made a request to MISO, which MISO has accepted, to not only revisit -- continue working, revisiting the Northern Area Transmission Study, but to look specifically at the benefits and costs that would come from interconnecting the Upper Peninsula with Ontario across the Soo and with the Lower Peninsula across the Strait. So those, that study is not -- it's been agreed, it's not yet begun, so we'll see how that results play out, but, you know, there's the possibility of some benefit from better transmission connectivity to the eastern Upper Peninsula.

And then there -- in the SSR payments for the Presque Isle power plant, those have been before FERC, both the amount and the allocations, and of course the allocations have largely gone against Michigan, so increasing the shares of those costs that have been allocated to the Upper Peninsula utilities, but there also was a recent determination that a substantial amount of the costs were inappropriate, and so the amount to be allocated has been reduced, and the net is still I think an increased allocation to Michigan utilities over where we were, say, a couple of years ago, but not nearly as bad as it would have been under the new allocation scheme. So that's another Upper Peninsula matter that it's still in motion and just as a general update.

And then more generally of interest, not specific to the Upper Peninsula, MISO has been studying the capacity market, their capacity market, and in particular, its application to those zones that have a significant retail competition element, which is Illinois and the Lower Peninsula of Michigan. And in their proposed steps on that, they've had a number of directions, but one of which -- one of those is to go to a three-year forward auction for capacity, where it is currently a quick auction, current year. Another negotiation occurred between Michigan Agency for Energy and MISO which was announced a couple weeks ago, you may have seen some coverage of it, the essence of that is MISO is submitting their plan for these zones in the three-year auction to FERC on November 1, and in that they will include a provision that allows for what's been labeled as a prevailing state compensation mechanism, and under that mechanism, a state would opt in to it or not. If they do not, they would fall under MISO's ordinary rules where MISO determines the capacity requirement for the zone and for each utility within the zone. The utility submits what's called a fixed resource adequacy plan describing the resources that they own or have under contract, and then the excess or deficit of capacity credits that they have at that point go into the auction, that's the normal way of doing business. Under this agreement, if the state opted into the prevailing state compensation mechanism, then the alternative energy suppliers and traditional utilities, territorial utilities in the zone, would not be able to enter the auction, either buy or sell capacity credits, but rather they would be required to enter into, you know, capacity purchase agreements at a price determined by the state public utilities commission, in this case, the Michigan Public Service Commission. So rather than an auction-based price, it would be an administratively determined price. MISO would still determine the capacity requirements, accredit the resources, review the plans, it's just that instead of the auction, there would be this administered price, so the setup in Michigan would basically be that the alternative energy suppliers who don't have sufficient capacity would be buying that capacity from DTE, Consumers, perhaps Wolverine, others. There would be -- there will be no provision in the FERC tariff as to how that number is determined by the Commission, it would be at this point entirely up to the Commission.

MR. MacINNES: I've heard some comments from the large power user that they're not real excited about this deal.

MR. JESTER: Yeah, there's been a variety of comments about whether it's a good or bad thing, I'm just reporting to you what's happening.

MR. BZDOK: We're very concerned about it. I've seen a history both in the work I've been doing in Ohio and in the work we do here where there are very rosy projections of capacity revenue and then there's a capacity auction and everything needs to be reset because the auction, you know, the real world just, that never supports the project -- I mean at some point it will, sure, but far more often than not the real world marketplace does not support the, these projections.

MR. MacGINNES: Well, I think some of this is a result of this merchant nuclear plant work or concern in Illinois. And I just attended the U of M Nuclear Power Conference for three days, and it was very interesting because it was almost unanimous that a revenue-neutral carbon tax would really go a long way to deal with these issues, and this was -- I mean this was primarily in the nuclear, you know, many from the nuclear industry, A&E CEOs, utility CEOs, nuclear physicists, OECD economists, I mean a whole laundry list of people, and it was, you know, if we could just do a revenue-neutral carbon tax starting at, you know, they said $30, you know, a ton, that that would go a long way to normal -- I mean putting everyone on a level playing field. But the question I asked, I raised the question, well, I know a lot of the renewable people are asking about the revenue-neutral carbon tax and encouraging it, but I don't hear anyone from the nuclear industry saying that, and the fellow from the OECD said, well, there's really no nuclear industry per se, what you have are large companies that are involved in nuclear and fossil fuel plants and either owning them and/or supplying equipment like steam turbines, that sort of thing, to them, and that they're conflicted because to the extent that they were to encourage a revenue-neutral carbon tax to help support nuclear, that it would be hurting all their fossil fuel business, such as the fossil fuel boiler companies and coal companies and gas companies and all of that, so what you hear instead is silence, even though there's -- it was just amazing almost total unanimity and that as the best solution from engineers, business people, economists. So anyway, we're going through all these other gyrations to deal with that.

MR. JESTER: Yes.

MR. MacGINNES: It's interesting. Anything else on MISO?

MR. JESTER: Again, there's lots of activity, but nothing eventful at the moment.

MR. MacINNES: Well, I've been in touch with Laura Rauch, who's involved in a lot of this stuff, and she has agreed to come up and present on several of these issues at the December meeting, so that should be interesting. We talked about her coming up this meeting, but she felt she would be in a better position to provide updates on some of these items in December. She's going to give us an update on MTEP 17, on the U.P., and on these nuclear issues for the midwest.

MR. SMITH: So the reduction of transmission owners' profits from MISO is presumably going to have a net positive effect on ratepayers --

MR. JESTER: Yes.

MR. SMITH: -- and do you see that impacting any of the future cases in any, like our local cases in any relevant way?

MR. JESTER: Yeah, it should. The power supply cost recovery cases include recovery by the utilities for the, what they pay MISO for transmission, which is then paid to the transmission owners, or some of it is. So in time, it should flow through to first power supply cost reconciliation cases and then plan cases as those numbers change.

MR. SMITH: So one of the things that you guys as the grantees will have to guard against is the softening of that reduction?

MR. JESTER: Uh-huh, yes.

MR. MacGINNES: Okay. Anything else that you want to report on?

MR. JESTER: No.

MR. MacGINNES: Okay.

MR. SMITH: And she's coming in December?

MR. MacGINNES: Uh-huh.

MR. SMITH: Great, Jim. That's awesome.

MR. MacGINNES: That's the December 5 meeting.

Okay. Let's see. So that takes care of CARE. How about if we go to the Michigan Environmental Council.

MR. BZDOK: Certainly. Mr. Chairman, members of the board, Chris Bzdok on behalf of MEC. Big picture view, we are waiting for PFDs or orders in our two 2016 PSCR plan cases. In the case of DTE, we're waiting on a PFD, that's the NEXUS. Consumers, there will be no PFD, we're just waiting on an order, that's the wind contracts, the gas agent agreement, and the STB, Service Transportation Board, litigation costs.

On our two rate cases, we have completed those hearings, and the DTE briefing is completed and the Consumers briefing is just starting. I will circle back to Consumers because that's where I want to focus my comments today.

We have the two PSCR reconciliation cases, we're in the process of preparing testimony on those. I'll have much more detailed updates for you for your next meeting on those because we will have publicly filed testimony. It's currently just, you know, sort of under development.

The new -- the utilities filed their PSCR plan cases on Friday afternoon, Consumers and DTE did. Consumers looks fairly generic in the sense that it's -- a lot of the issues that we've talked about are not apparent in the filing, but rather the filing is sort of standard and goes through a lot of the usual stuff, but certainly we will be able to mine our issues via discovery.

DTE has a couple items of note. One item that we have talked about has been sorbent costs, we've talked about that for a long time, that the costs of pollution control sorbents to comply with the Mercury and Air Toxics Standard, we have expressed either skepticism at the optimistic nature of DTE's projections, those costs that were covered in the PSCR, we're talking about what I'll call kind of the low value, low grade DTE plants, St. Clair, Trenton, and River Rouge, and really it's, now we can talk about what's left of St. Clair, Trenton, and River Rouge because they've all had either issues or retirements now. So at -- so one of the things that's disclosed in the filing is that they've had to undertake, they've had to install additional injection equipment at Trenton 9, the remaining Trenton unit, to inject calcium bromide because the brominated powdered activated carbon that they were using to control mercury was not achieving compliance with those limits. And so I don't have any sense of how that's going to deal with costs, but it goes to these issues we've been talking about for several cases now, that they haven't been proceeding on good information, they were going to have issues, they were going to have higher costs, so we're going to be zeroing in on that.

NEXUS is back, as we had indicated. There is now a, something called a NEXUS negotiated rate agreement which has some firmer costs in it which DTE has put forth in that filing, and they are again asking for Commission approval of these costs over the life of these agreements, and so we will be dealing with that once again.

MR. MacINNES: Chris, on this NEXUS, and we talked about this at the nuclear conference, too, and it was pointed out that, you know, their nonregulated subsidiary is spending the billion, right?

MR. BZDOK: Yes.

MR. MacGINNES: So but the question about a stranded cost would deal more -- and maybe you can help me with this -- would deal more between -- on the contract between DTE regulated and the nonregulated, or the NEXUS Pipeline Company, I mean how would that, how would the stranded costs be, or if there were a stranded cost, how would that affect the regulated utility, or how would that be created by the regulated utility, recognizing that the capital costs, the ownership would be, it would be owned by the nonregulated pipeline company, but yet there was -- we've had earlier discussion -- actually, that was a guy from DTE that I brought this up with, their gas division -- or actually, no, it was their nuclear division -- but I mentioned that there was something like a 10-percent requirement, a requirement that DTE regulated buy 10 percent of that gas --

MR. BZDOK: Yes.

MR. MacGINNES: -- and you pointed that out earlier, and you said, well, no, you can't do that, and I said well, I think that's what's happening because of the code of conduct issue, right?

MR. BZDOK: Yes. So DTE Electric and DTE

Gas have each proposed to the Commission, have each requested that the Commission approve costs for them for gas, firm gas under -- through that pipeline for the life of that pipeline. Well --

MR. MacGINNES: Which would be?

MR. BZDOK: For 20 years, give or take, which may or may not be the life of the pipeline.

MR. MacGINNES: Right.

MR. BZDOK: But it's sort of the first phase of life maybe of the pipeline would be a way to say that. They are each in for 75,000 decatherms a day, which is 5 percent of the total pipeline capacity as originally proposed, so DTE regulated utilities combined are in for 10 percent, which makes them what they call an anchor shipper.

MR. MacINNES: Right.

MR. BZDOK: The -- and so they will buy that 75, DTE Electric will buy 75,000 per day, DTE Gas will buy 75,000 per day whether they need it or not, you know, whether it's coming in at a price that's better or worse than the basis difference between where it, you know, the origin of that pipeline and the end point, they will buy it every day for 20 years, give or take after it ramps up. It starts at, right, it starts at the 30,000 and then it ramps up to 75 in a few years.

The question of economics for DTE regulated utilities is a matter really of two things. One is a question of demand; is gas generation going to be competitive for DTE for the life of this agreement such that they will have the demand for this gas for the life of the agreement, and so that's a risk, that is one form of risk that's being imposed upon the ratepayers is that they're going to have enough need for this generation, and I think it's not really a risk in the next few years, but, you know, years 18, 19, 20, you know, whatever, who knows what things look like then.

MR. MacGINNES: So in this discussion I was at, they basically, DTE was showing how they're really shifting away from coal and big time into gas, so their gas mix is going to go for power generation.

MR. BZDOK: Yep. As recently as 2013, their plan said nuclear, baby.

MR. MacGINNES: Right. Oh, they also said they're not going to do Fermi 3, it's too expensive. This was the head of their nuclear.

MR. BZDOK: Can we get that in writing?

MR. MacGINNES: That's what he said. He said that they're not going to do it. Actually, I think I have his slides. We're not planning on doing it, and particularly because the price of gas is going to be so low that we don't have any plans to do Fermi 3.

MR. BZDOK: We're still asking for a return on the $102 million we have into the license for Fermi 3 --

MR. MacGINNES: Right. I was thinking about that as he was telling --

MR. BZDOK: -- because that's a valuable asset for the ratepayers.

MR. MacINNES: Right. You want me to send you the slide?

MR. BZDOK: Put tongue in cheek in there. So that's one risk, source of risk is whether they're going to have the demand, whether they're going to go forward with the gas generation, whether they're going to need that kind of gas each and every day. No question there are days when they do need it, and there will be days when they need it; the question is the 365, you know, for 20 years need for it.

The other form of risk has to do with the price difference between the origin and end point, which sort of counterintuitively is more a function of how much pipeline capacity exists to get gas out of the Marcellus-Utica. The more capacity that will get gas out of the Marcellus-Utica, the lower the price within the Marcellas-Utica will be, and therefore, the smaller the basis difference will be, and so that's sort of a contractual risk. So there's like a resource planning risk and then there's a contractual risk.

As far as the allocation of stranded costs, I have not mined the agreement to see if there are stranded costs that would be allocated to the regulated utility, it's hard for me to -- so in a situation where the pipeline company is no longer, it's basically abandoning the pipeline -- I'm just trying to talk through the answer to your question -- that would mean that either they ran out of gas in the basin, or for regulatory reasons or changes in the grid reasons, the demand for gas was much lower; so the supply was too low to supply the pipeline or the demand was too low, you know, for the -- was much lower than expected. If the demand was much lower than expected, it would seem to me that the regulated utility is still on the hook to buy gas through the pipeline, and so that's not really a risk for the pipeline company, right. I mean they -- whether it's good for their customers or not, they have these long-term contracts that they get to ship the gas and the customer gets to buy the gas. So that's probably maybe even more of a Paul Isely question than for me. But it's hard for me to picture where -- where a risk would occur to the regulated utility customer of the pipeline being a stranded asset, it would seem to be more that the risks are of the two types that I mentioned, that they don't need all that gas or that they're not getting a good deal on that gas.

MR. MacINNES: Right. So it's these take or pay contract situations where it might be out of market but you're stuck with it.

MR. BZDOK: Yeah. And it's really, it's take, it's a take contract, and if you can't use it, then see if you can get rid of it some other way. And that's what they say, they say on days when we don't need all this gas, we'll broker it. And then the question becomes, well, if you're paying too much for it, you know, that's like, well, I'm going to pay 20 percent too much for all these apples and then -- but it's okay because I'm going to be able to sell these apples, you know, that I paid too much for, so that's all right. Right. I mean, you know, who's going to pay you what you paid plus what you paid too much.

So I don't -- I'm thinking about it, I'm not seeing a lot of stranded cost risk to the regulated utility customer, but rather the other two types of risk that I'm talking about. And the resource planning or lack of demand risk is, I would say, of a similar category of risk in the sense that, well, are we going to be using lots and lots of gas for electric generation 20 years from now.

MR. MacGINNES: And to that point, I mean this whole conversation, it's like coal's down to 29 percent of the mix in the U.S., or that was the number that they said, and nuclear, new nuclear unsubsidized, $125 a megawatt hour, existing nuclear, $45 a megawatt hour. One of the economists from the OECD said that basically if you have to build a nuclear plant using a market-based capitalization like a corporation would use, that's antinuclear because you can't -- it's way too expensive. And a comment was made that the time to deploy a nuclear power plant between the planning and the actual deployment of it is 10 to 19 years. That's a long time. So and the forecast for gas prices was up, but not like this, it was, well, you know, it was up. And it was very -- unless there's some just huge changes in the way we permit plants, the way we finance plants, there's not going to be any new nuclear, based on what I heard. And the new projects, like the Terra Power, there was a guy, the chief technology officer from Terra Power, which is Bill Gates' nuclear company, they're doing work in China, so they're going to deploy their nuclear plant project, new project, new concept, in China because the permitting is too daunting here, and then the Chinese will probably let them also resell that, their idea, in the U.S. That's how that seems to be playing on.

Then there was New Scale who was there, and that looks like a good program, you know, the small SMR, small modular reactors, and but there was no cost or timeline on that, and but it was incremental, it looked pretty neat actually, incremental nuclear steam supply system and steam turbine, you know, 50-megawatt-ish, something like that, and you can put however many you want, separate steam turbines for each one. But then it was brought about, well, if you're going to have all these SMRs dotting the country, what about security issues, that question was raised, it's a good question. So and that's, you know, new technology that hasn't been tested, hasn't been developed, looks like a good concept. So that's probably going to be a while before it can be deployed.

So I guess the bottom line -- of course they didn't talk about -- there was hardly any discussion about energy efficiency, load shifting, or demand response, which are good alternatives, as we know, but it really looks like gas is -- I mean there's going to be a big demand for gas in the future based on the scenario that was laid out at this conference.

MR. BZDOK: That's where, you know, in my field of vision, which is limited, that's where I see all the chips being played.

MR. MacINNES: And it's big, I mean it's going to be big. So that's probably why they're comfortable taking on these risks.

MR. BZDOK: There's a way of looking at everything that's been going on the last few years as being all -- as the -- the fundamental route explanation for everything that's happening is, you know, building as much gas as possible, including the attempts to eliminate the 10-percent choice market, you know, whether by totally eliminating it or by sort of starving it; the attempts to shift production cost allocation on to residential customers, right, because who's going to pay for that capacity. The industrial customers aren't happy with their rates already, but if you can shift all this cost onto residential customers, then you kind of hold the industrial customers harmless, or closer to it, just, you know, all of it. Obviously then there are appeal of the RPS and the energy efficiency mandate, you know, and pending legislation, just all of that stuff is all just, it all has, you know, the scary television commercials, that's the root of all of it.

MR. MacGINNES: Well, and there was quite a bit of discussion also, it's like, well, I don't understand how we're going to deal with this when the sun is not shining. There's a lot of that discussion. In other words, there's no grid, there's no other backup. What happens when the sun goes down and the wind stops blowing, and there's a lot of good answers to that, but there weren't any discussed at this conference.

MR. BZDOK: Can I talk about the Consumers rate case in a little more detail?

MR. MacGINNES: Uh-huh.

MR. BZDOK: And really I want to just talk about one issue in that case. So when I started this work, Consumers had 12 coal units spread across 5 plants, Cobb, Weadock, Whiting, Karn, and Campbell. Cobb, Weadock, and Whiting had seven units, they're sometimes referred to as the Seven Dwarfs, they were publicly referred to as the Seven Classics. Karn and Campbell, five units, is the Big Five. Among Karn and Campbell, sometimes then there is a distinction drawn now between the two Karn units and Campbell 1 and 2 as being the Medium Four, and then Campbell 3 being sort of as a standalone because of how relatively new it is, large it is, efficient it is, it's sort of in a class by itself. And when I started doing this work, there was a proposal obviously to build another coal plant at the site of -- at the Karn/Weadock site in Essexville, which probably would have been accompanied by the retirement of some of the Seven Dwarfs as well. Cobb, Weadock, and Whiting now are all retired, they retired as of April of this year rather than upgrade them and comply with Mercury Air Toxics Standard mainly was that decision, and then investments were made in the Big Five to comply with MATS and go forward. Now there are additional things coming down the pipe, including some Clean Water Act and some RCRA expenditures, which are outlined in the memo to you, which are kind of are over the next five years or so, the next five-year timeframe. So there was a block of five years starting in 2011 and finishing this year where some units got investments to comply with MATS, others got slated for retirement. The next five-year block is a block having to do with Clean Water Act, 316(b), what Consumers calls SEEG, what others calls the Effluent Limitation Guidelines, or ELGs, and then RCRA to deal with coal ash as well, and then mixed in with all of that is the Clean Power Plan and what's the compliance strategy going to be for that, and mixed in with that is the stay by the U.S. Supreme Court when it had its full membership and what's everybody going to do with that and what's the timing going to be for that.

So Consumers in the rate case asked for another investment recovery mechanism, which was a preapproval of all capital expenditures by the utility on everything through 2019. And we didn't focus on everything because we focused on these, mainly on these Medium Four coal units, and so we asked the question, you know, because if we're going to talk about the next five years, that's a very different -- and the Clean Power Plan, what's going to happen with that. That's one question if we're going to take it one step at a time, it's another question if we're just going to preapprove all the expenditures for the, you know, for the first three of those five years. And so we asked, do you have any net -- do you have any economic analyses of the Medium Four, Campbell 1 and 2 and Karn 1 and 2, that basically are the cost of the investments and then the PSCR revenue costs, how much are they going to dispatch, how much are they going to cost to fuel, how much are they going to cost in sorbents and emission adders and emission allowances and all these things, how much are they going to run, how much power are they going to generate, how efficient are they going to be. So there's some capital investments that are proposed, and then there are these PSCR-based analyses, NPV analyses, and Consumers said yes, we do have NPV analyses on the Medium Four. And so we obtained those, we had to sign a confidentiality to do that, and there's a protective order in the case, so I can't show them to you. If you're -- if you have more interest in this topic, I can try to go back -- I've already tried to get them public once, and that was basically they would not agree to that, but if you want to try to do a thing where we do a closed session and I can show them to you in closed session, I can pursue that. You know, Consumers agreed to that with one other thing we did a few years ago, but you can just let me know on that.

But bottom line, it took -- these were Strategist and PROMOD modeling of the PSCR of how much would these units run and how much revenue would they generate and how much energy would they generate, and they were based on different case scenarios for two main things; one is capacity revenues based on what's the cost of capacity going to be for Zone 7, and the other was gas prices, the higher the gas prices, the more economic the units are, and the lower the gas prices, the less economic they are because the less they'll run, the less well they'll compete, although there's some offset because energy prices will be -- you know, and then the less the energy prices will be, so less revenue they'll receive when they do run. And there was a base case scenario and then there were sort of additional scenarios, you know, capacity plus gas cost plus scenarios, and on the vast majority of these scenarios, the economics of continue to invest in the Medium Four and operate them for some foreseeable remainder of their life were negative. I mean it was just, you know, it was really something to see that.

So we filed testimony in the case that said, first and foremost, deny approval of this IRM because any projection is that these units are not going to be economic to operate, so you shouldn't preapprove multiple years of spending on them. Second -- and we not only just want to do that because we've done that before and that's playing defense only, but we also want to say, look, because Consumers said, look, the NPV analyses we did, they weren't to make any decisions ultimately on the disposition of the units, they were just to -- you know, we were just doing them as sort of as a check-in. So we said, well, the big spending you're going to have on this next phase of operation is going to be 2018-2019 spending, 2018-2019 projects, so before you start getting too much further down the path for those projects, you do need to file with the Commission in some proceeding and vet NPV analyses that are to determine the ultimate disposition of those units before, you know, you incur a whole bunch, you know, tens of millions or hundreds of millions of additional dollars or commit to those. And so that was something we wanted them to do.

And then the third thing we said was, if there are any test year expenditures, that, in the Medium Four units that are avoidable, if they're retired in 2021, which was the date -- in the NPVs they said, do we continue to run them, you know, till some reasonable end of life expectation or do we retire them early, early being 2021, we said don't, you know, deny any expenditures that are going to be avoidable, that would be avoidable if they were going to retire in 2021, because some of these next environmental requirements are sort of long, you know, long-term compliance dates. And so they said -- in rebuttal they vastly shrunk the scale of the IRM, and anything having to do with fossil generation is out of the IRM, and the only thing they're asking for now has do with some distribution system expenditures. So the first point is gone, they're no longer seeking approval of the IRM for fossil generation, and so that's taken care of.

On the question of whether they should be required to prepare updated NPVs before they get to a point where the 2018-2019 expenditures become unavoidable, there's conflicting evidence in the record, and the conflicting evidence in the record is basically when does the decision have to be made, when are those projects committed to, you know, when is the 2018 project committed to and will a decision be made and will the NPVs be done and will there be some proceeding that supports that, and the testimony was sort of conflicting on that, particularly in cross-examination as to are those early 2017 decisions, are they late 2017 decisions basically was the difference of opinion among Consumers, you know, among the evidence in the record and then the people on the stand. So we were arguing, well, that makes it all the more important that there needs to be some clear direction here, because what you don't want to do is just kind of slide into, right. And their argument on our test year expenditures really emphasizes that point because on the test year they said, well, all the test year stuff is unavoidable because we've committed to it all, whether we need it or not, we've committed to it all. And so the place we pushed back on that had to do with the SEEG or ELG expenditures, which the capital expenditures for those are relatively small, but they're -- they isolate nicely in terms of studies. So these are -- these are -- basically these are standards for toxic metals in waste water, in the waste streams of the coal plants from a variety of different processes, and the disposed -- there will be PSCR disposal costs associated with these. And so they have to do studies, the studies are, you know, they're a couple million dollar type studies, but they're test year expenditures.

And so the Staff weighed in on this question and we weighed in on this question about the SEEG as being potentially avoidable, and out of that process was produced a discovery document which I provided you with which is really interesting because it's a letter to the DEQ basically arguing that the -- that because of what's going on with the Clean Power Plan, the compliance deadline, DEQ should set a later compliance deadline for SEEG than the sort of default deadline, and the argument that's made looks like it's -- I mean it looks like the same argument we're making over here in the rate case, that you really don't know what's going to happen to these units and so you need to avoid basically, you know, irretrievable commitments of resources towards these units. And they say: The Michigan Public Service Commission has expressed concern about Consumers making capital investments in our coal fired generation fleet to comply with recently published environmental regulations like SEEG and then potentially stranding those assets should compliance with the CPP ultimately require early retirement of some units. I'm not aware that the Commission has said that, but we've been saying that till we're blue in the face. So it's really an interesting time in the next five years, and probably more like the next two to three years, in terms of those Medium Four units. So in a way -- So we're making these arguments in these case, which are more or less don't let the horse out of the barn at this point.

And as far as the IRM being approved, that's already taken care of, Consumers has already withdrawn that in rebuttal. As far as test year, the focus here is on SEEG, which is small dollars in the grand scheme of things, and it's kind of this spot in the middle here about when are the big 2018-2019 projects going to get committed to or not committed to, and we feel like we have some commonality with the Staff on this issue, both as to SEEG, and maybe in the larger context, and so that's kind of a big area that we're going to be working towards in the next couple years, because it seems like there is some potential uncertainty as to what's going to happen with those units based on their economics. So that's -- thank you for indulging me in that.

MR. MacGINNES: Interesting things always happen in transition points.

MR. BZDOK: That's exactly what it is, it seems to be a transition point. And I'm not saying it's all four units, but I'm also not thinking it's none of the units either, so.

MR. MacINNES: No, that's good.

MR. BZDOK: So it's -- and, you know, I know 5 Lakes Energy has done forecasting and I know that the State of Michigan has funded some forecasting, and there are certainly more economics scenarios that involve, you know, retirement of those units than not. So it is a, it's just a really interesting time as to those Medium Four units. And I also think it's, there's just a you've come along way baby quality to some of this as well from 2008-9 where we're going to build a new coal plant we're going to commit to for 50 years and now we're talking about --

MR. MacGINNES: Early retirements.

MR. BZDOK: Yeah. Maybe somewhere -- you know, Campbell 3 is going to continue, but we're somewhere between five and one, probably five years from now, so that really interesting, too.

MR. JESTER: Do you mind just an additional comment from me on this. Chris referred to modeling me and 5 Lakes have been doing, this is outside of our regulatory work, but two things from that relevant for this discussion. Under the Clean Power Plan, each state has a carbon emissions target that it has to get to. Trading is possible, and in the presence of trading, the story is a little more complicated, but still essentially gets us to the same place, so I'm going to ignore the trading of allowances between the states for the moment.

When you replace coal generation with efficiency or renewables, you're replacing, you know, generation that has a fairly large carbon emissions rate with either avoided use of energy or energy generation, electricity generation that does not create any carbon emissions, and so you have to achieve this reduction in emissions, you have to switch a certain number of megawatt hours over from coal to one of these other sources. When you go from coal to gas, the gas generation produces less carbon emissions, but still produces carbon emissions, so to achieve a given level of reduction in total carbon emissions, you have to switch more megawatt hours from coal to gas.

To play that out in the specific context of Michigan, by our analysis, if the state were to go a strategy of focusing on coal to efficiency and renewables, then we would retire about three more gigawatts of coal plants than have been retired today; if we go coal to gas, we retire about six and a half more gigawatts. So these, this move to gas implies greater retirement. And in terms our analysis of specific plants in this scenario where you go gas, there are only three coal plants that we, in Michigan that we see surviving, Campbell 3, Monroe, and the Sims plant in Grand Haven, a municipal plant.

MR. BZDOK: Belle River doesn't make it?

MR. JESTER: Belle River doesn't make it, it has to go to make the last increment reductions in 2029 or 2030. So this rush to gas implies closing more coal plants.

MR. MacGINNES: So does that cause the coal burning utilities to, I mean would they be better? I mean shouldn't they be like doing energy efficiency more and renewables more so they can maintain their --

MR. JESTER: Yes. Short answer, they would be able to keep their coal open longer and more of it if they focused on so-called clean energy strategies, efficiency and renewables, than on switching to gas.

MR. MacGINNES: Do you see any of that kind of discussion in your work on these coal plants, because you've done a lot of work on it?

MR. BZDOK: Which part of it?

MR. MacGINNES: Well, the part about, oh, you know, to the extent that there's more, I mean there's more energy efficiency rather than shifting the coal to the gas, you shift to energy efficiency, which is what the Governor has been trying to encourage from day one.

MR. BZDOK: Agreed. So as I had mentioned in a comment a little bit earlier, everything, everything that I am seeing is, in Michigan, part of that is that we have regulated generation here, is about gas generation, and I -- and my impression is that's an investment strategy, and a least cost strategy and an investment strategy are not necessarily the same.

MR. MacGINNES: So big build -- build big assets, gas assets, put them in the rate base?

MR. BZDOK: Scare the public that the lights are going to go out, get rid of the choice providers so that you can capture more rate base, shift production costs onto residential customers because the industrials are the only ones who might leave, you got to keep them at least as less unhappy as possible, you know, do things like NEXUS, you know, get rid of the RPS, certainly don't, you know, certainly avoid increasing the RPS, kill net metering -- I'm not saying any of these happened, I'm just saying that strategically, I mean everything, everywhere you look, I mean my impression, this is me speaking --

MR. MacGINNES: Is build more gas plants.

MR. BZDOK: My impression is it all leads to one place. I'm not saying they're going to succeed or that any of that has happened, but that's, like that's where it all seems to be right now.

MR. MacINNES: So there was some legislation proposed to not be able to charge ratepayers for gas leaks, for leaks in the natural gas system. Have you seen that? Is that -- where is that, any idea, have you heard anything more on that?

MR. JESTER: It's highly unlikely to progress.

MR. MacGINNES: I thought it seemed like an interesting idea, because we need to plug those leaks, right.

MR. KESKEY: Well, all the gas rate cases in the bigger companies include in the rates cost of lost and unaccounted for gas, and the Staff and the orders have provided for a multiyear decades, many decades' program to fix the gas losses and, you know, update some of the gas lines, and it's not an insignificant amount of lost gas, which it doesn't help the environment either --

MR. MacINNES: Right.

MR. KESKEY: -- besides the increased cost of all the waste.

MR. MacINNES: Nobody talks about the methane emissions from lost gas.

Okay. Well, that's a very interesting

analysis. I think it makes a lot of sense.

Hi.

MS. RISON: Hi. I would add on to that that with the contracting of capacity and the scaring, perhaps that would make it more amenable to building Fermi 3 as well.

MR. MacINNES: Well, I was just at a conference, a nuclear conference at U of M, and they basically ruled out building Fermi 3 because gas prices were so low.

MS. RISON: Oh, did they. Okay.

MR. MacGINNES: I mean the cost to build a new nuclear plant, it's basically doubled what a combined cycle -- well, about close to double it.

MS. RISON: So what's going to happen, then, for them, the cost of them carrying the permits through the rate cases?

MR. MacINNES: Well, that's a good question. We should be --

MR. KESKEY: Well, the current rate case for DTE has provisions in it under Edison's proposal for the ratepayers to pay not just for an amortization of those permit and licensing costs, but also a rate of return on it, and the theory is, well, it's valuable to the ratepayers. The problem is is that when -- if the parent company wanted to sell that to someone or partner with someone, you can bet the ratepayer is not going to get anywhere near the credit, if at all any credit, for the amount it would be pay in rates under Edison's proposal.

MS. RISON: And that second piece was --

THE REPORTER: Excuse me. You have to speak up.

MS. RISON: Oh. And that second piece was going to be an additional 9 million a year, that energy support for ratepayers.

MR. MacINNES: So we just had two people enter the room here, and if -- can you state your name for the record.

MS. RISON: Sure. Michelle Rison.

MR. FORSBERG: Dave Forsberg, U.P. Power Company.

MR. MacGINNES: Okay. Well, there's a lot going on. Any comments or questions from the board on these last two presentations?

MR. SMITH: Great insight. Thank you.

MR. MacINNES: Okay. It's 2:30. Moving along. Don, do you want to talk about your work.

MR. KESKEY: Yes. I'll split it in two, two ways, one relative to cases in which GLREA is involved and with respect to the Residential Customer Group, it would be more succinct because basically they have been in the Consumers Energy and DTE Electric rate cases, but the PSCR plan cases were just filed last Friday, so this analysis would just start, but with the emphasis according to our work plan.

But with respect to the GLREA, PSCR for Consumers Energy for 2016, which is U-17918, the briefing and hearings were completed, and that docket is being submitted directly to the Commission with a waiver of the PFD step. With respect to the DTE PSCR for 2016, which is U-17920, the hearings and the initial briefing to the ALJ have been completed, but now there will be the issuance of a PFD at some date here in the future, and then the parties have the right to file exceptions and replies to exceptions before it's submitted to the Commission.

With respect to DTE Electric's amendment of its renewable energy plan in U-1993 [sic] and which was then given also a docket of U-18111, under the applicable statute, the Commission had to issue a decision within 90 days of the application which was filed on June 30th, and the Commission indeed on September 23rd issued its decision or order in the case, that was following hearings, agreement to bind in testimony of the three parties, which was the DTE Electric, GLREA, and the Commission Staff, followed by briefing, initial briefs and reply briefs, and the Commission in that case -- in that briefing and in that evidence by all three parties, all parties agreed with the goal of approving DTE's application to invest in additional wind and solar which would take them over the 10-percent limit that Consumers Energy would argue but which now DTE argues is a threshold or a floor and not a ceiling and which they propose to go above that 10-percent figure. And the approval -- GLREA in that case also urged the Commission and DTE to plan on going beyond that level that they proposed and expand renewables further and take advantage faster of the investment tax credits for both wind and solar that have been extended by the federal government.

And so the end result of the order is that Edison has approval to invest in two new wind projects, which would add 300 megawatts more of wind power and bring them up to 751 megawatts of wind, and then they would also expand 25 megawatts more of solar, which would bring them up to 91 megawatts of solar, but all of this would be DTE owned. There's no proposal in here for promoting community- or customer-owned programs for either one. So that is the main things that's happened on that case, which is now concluded. But the Commission did note that the next renewable energy plan case for Edison will be coming up next summer and they could be, Edison would have the right and ability to propose additional investment in these areas.

With respect to the PURPA cases, this would be U-18090 for CECo and 18091 for DTE, there are basically three varying proposals, as I understand it, for compensating PURPA projects or independent power producers for capacity and energy; there's a Staff approach, and then there's a DTE approach, and then there's a CE Energy approach. What the case will have to -- the cases will have to do is to mill together some proposals into a policy for each company.

One of the things that, as a broader theme of concern, is that I went for many years through the battles when PURPA first was passed and then Act 304 was passed, and there was the dilemma of how you comply with PURPA and at the same time make independent power producers or PURPA projects financeable. If you have only a two- or three-year purchased power contract tied to an uncertain formula, whether it be MISO pricing or whether it be the avoided cost of a gas -- of a combined cycle gas plant or what have you, you can't get a project financed or refinanced; so as a result, in Act 304, there was an amendment to that Act that provided for the assure-ability to financiers or banks or whoever is financing these projects to have PPAs that would fix a price that would be basically applicable for about 17 1/2 years, with that price to be determined by the Commission, and even back in those days there was the debates about whether that should be a coal price capacity price or a gas price because MCV was being developed switching from a failed nuclear plant to a gas plant. And I'm not going to go through all those battles, but the point is what you see in some of these proposals that are unfolding is that since then, MISO has come into the being, and if a utility wants to propose a PPA for a period of only two to five years tied to a MISO price or any other uncertain forecasted price, power, independent power producers or PURPA projects are going to get financed or get refinanced; are you really going to have that kind of an industry in Michigan. And also, if it's tied too much to uncertainties of forecasts or MISO prices or what have you, it all folds into utility control, because if a utility builds a big gas plant and puts it into rate base, the ratepayers and regulation is guaranteeing, in realty guaranteeing that plant in rate base to be depreciated and have a return on the investment for as many years as it takes, and the days of successfully getting a judge's -- or adjustments from the Commission that a certain portion of the expenses were unreasonable or imprudent with respect to a gas plant investment has diminished greatly, you know, the adjustments for that are pretty scant as far as I can see. So if a utility is investing in its own plants, it's in rate base, O&M is covered in rate base, taxes, everything else, they in essence have a real world financial assure-ability that goes on for decades, whereas if you're going to have any existing or new projects, PURPA projects that are not owned by the utility, under some of the proposals you would have so much uncertainty and potential inability to have revenues to cover those kind of expenses.

So the setting of the PURPA price is very important, the avoided cost, but also things like the term, what it's going to be tied to, are we going to have these diverse projects as part of the energy policy in Michigan or not, or are we going to put up all of the obstacles that will ensure more and more and more utility control of everything. And so that's -- these cases are being worked on.

MR. MacGINNES: As someone who's developed PURPA projects, I agree with about everything you said on that. It's not --

MR. KESKEY: Well, you know, it seems like there was -- it seems like that for a while there was progress being made and some states are making progress, the question is which way Michigan is going. And an avoided cost which is too high is just as uneconomic and impractical as avoided costs which are too low in terms of residential ratepayer interest and public interest over any kind of timeframe. And the testimony in one of the cases is due October 27, another one is December 1, and it's going to be an important, it's going to be an important decision for the Commission.

MR. MacINNES: So they are talking about contract lengths --

MR. KESKEY: Yes, yes, yeah.

MR. MacGINNES: -- that's an important part of it?

MR. KESKEY: In fact, while Consumers, you know, on one of their tariff proposals has suggested that a two-year period, and capacity would be reimbursed only if the utility needs capacity --

MR. MacGINNES: Yeah. That's not financeable.

MR. KESKEY: -- and that on another part of provision, they can go as long as five years for a contract, but --

MR. MacINNES: Well, even that is way too short.

MR. KESKEY: Yeah. And then, of course, energy would be, depending on whose proposal you're looking at, would be tied either to a combined gas cycle facility or possibly even MISO LMP prices, whichever are lower, or any number of variants of that, and so --

MR. MacGINNES: It's going to be a hard time for PURPA projects going forward, seems to me.

MR. KESKEY: And some very successful projects have been online and are at the point where they need to recontract --

MR. MacINNES: Well, all the biomass, you got all those biomass, 6 or 8 of those, 30 megawatts a lot of them, 36 megawatts.

MR. KESKEY: Yeah. So with respect to the Residential Customer Group, which has been involved in the, more than the last two general rate cases for DTE and Consumers, and we have been involved in the hearings and in the briefing and there have been settlement discussions, including last Thursday and Friday, and which are ongoing, and in those cases, again, we're -- we are -- have been suggesting that there's an element of double recovery in the opt-out fees for those customers that don't need or want a transmitting meter. There are alternatives, there are the existing analog meters which are not fully depreciated and are fully functional which Consumers has and is allowing some customers to retain, and then there's a digital meter that's not transmitting, and then there's a transmitting digital meters that are transmitting or can be turned off on the transmittal, but the opt-out customers are paying across the board for every expense the utility incurs, they're not get -- they pay for everything, including all costs of the AMI program, but in addition, they're charged this monthly opt-out fee, which we assert is not cost based, and we have a proposal for reducing that opt-out fee to eliminate what's the penalty aspect of that fee, the portion of the fee that's really a penalty, not based on costs.

Another issue that we --

MR. MacINNES: Have you been able to quantify? I mean what's that going to save residential -- how much is that going to save ratepayers?

MR. KESKEY: Well, right now the Commission has been basically carrying over from case to case a back of the envelope estimate of a monthly fee for opt-out customers that they first developed when the AMI program was in its very infancy, you know, when it was pilot programs, and they've been carrying that forward, and they're in the neighborhood of $9.00 or so per month per customer. But they're based for both utilities on the assumption that the utility must make an actual physical meter reading at every residence, and that's not true because the Commission rules provide expressly for the ability of customers to self-read their meter and report that usage each month by mail or phone or internet. And then also -- and then there's only an annual actual -- annual actual meter reading to reconcile those figures. But there's also for both utilities what's called an annual budget payment plan which a customer can sign up for and average its utility costs across each month, and our proposal is that if a customer, opt-out customer agrees to the self-read, self-report energy consumption plus agrees to the budget payment plan, that you only need to make one annual reading, not 12, and so 11/12 of that monthly cost would disappear, they're avoidable. The margin of difference between what's the real cost and the avoidable cost is what we would call the margin of difference, which is the penalty.

Now, with DTE, the problem with their AMI program in addition is that they're not allowing anyone to be on analog meters, there may be a few exceptions for proven medical needs, but I'm not sure that's even true, and that they are -- they have cut off some scores of customers who refuse to have a transmitting meter, either for privacy reasons, health reasons, or safety reasons, or just on principle. And the other thing about Edison's system is, unlike Consumers where there's a direct relationship between the customer location and the utility's input system for calculating the bills and consumption, Edison has a round-robin, almost like a party line concept that used to exist in telephone where they tie together up to 400 customers in suburban areas like Royal Oak and everywhere all around Detroit from one customer to the other so that they're -- you could be a customer at the end of the line and your meter is reporting consumption for 400 houses before it's transmitted to the Detroit input system, and it's a more expensive arrangement, it doesn't use existing wireless infrastructure as much as it is more of an Edison controlled system. And I don't know what's going to happen if there's a problem along this party line, this mesh network they call it, it's a mesh network. And so that's a problem particularly for those customers who, whether you agree with them or not, they inherently believe that they are affected by this massive amount of wireless communication going through their house, even if it's more than -- up to 400 customers, and they're --

MR. MacGINNES: Well, you know those electromagnetic fields drop off as the square of the distance from the transmitter, right? So you get very far, it's like (sound effect) goes way down to nothing almost.

MR. KESKEY: I don't know, I'm not a physicist or a --

MR. MacGINNES: That's what the physics tells you, it drops way off. Yeah, it's a function of the square of the distance from the emitter.

MR. KESKEY: Yeah, yeah. I took calculus only so far.

MR. MacGINNES: No, this is physics, this is not calculus, this is it physics and simple math.

MR. KESKEY: Yeah. So anyway, it's not to say that there isn't technological progress in the world, but people have real questions about whether there's a double recovery in the cost, whether they're cost based for the fees if they want to opt out and, you know, the privacy of the data, who owns all that data. The customer doesn't. And are we going to have marketing with someone saying, you know, we believe your refrigerator is going to die in five years, you know, then you get advertisements in the mail, you don't know why you got it, but someone is selling the data to someone. I mean who owns the data; how privacy -- how much privacy is there; can the system be hacked with all the hacking that's going on with respect to computers and wireless, even in the federal government.

MR. MacGINNES: But yet how do we -- I mean those are all valid issues I think. I just wonder, though, I mean how do we get information back to the consumer where they can control what their -- when they use their -- you know, one of the solutions to reduce the power plants we have to put on to the, you know, we have to build and put into rate base is adaptive load management. So somehow we need to provide feedback, particularly to the residential ratepayers since they're paying the freight on cost of the new generation, how are they going to get the data to decide, oh, maybe I don't want to turn my, I don't want to turn the washing machine on at 5:00 o'clock, I want to -- or I'm going to buy a washing machine that will do the wash at 3:00 in the morning instead, you know, somehow we need to have something that will provide feedback, and it's been decided to do, you know, some of that metering, right.

MR. KESKEY: Well, before you -- as a primary steps before you invest $2 billion in the AMI program and then how that escalates the rates to the residentials and everyone else massively, there --

MR. MacGINNES: But it's done, right? I mean --

MR. KESKEY: Well, it's 60-percent done.

MR. MacGINNES: Most of it's done.

MR. KESKEY: But the things are, okay, energy efficiency, education of the customer, customer who wants to do so can spend $35 and have a thermostat that he can talk to on his cell phone and say don't run my laundry, you know, until tonight or shut down my air conditioning because I'm at work or any of this staff. In other words, there should not be a total top-down mandate of eliminating all customer choice, that the customer can not opt out and must pay a penalty rate for opting out if that customer is concerned about the privacy of his home or his safety, because there have been some fires that originated from the AMI meters, or being --

MR. MacINNES: I didn't know that.

MR. KESKEY: Yeah. Michelle --

MR. MacGINNES: Well, I mean if -- we can spend a long day talking about it --

MR. KESKEY: There were hearings last week on --

MR. MacGINNES: There were fires that were directly caused by AMI systems?

MR. KESKEY: Yes.

MS. RISON: Documented fire department --

MR. KESKEY: According to fire marshals' reports.

MR. MacGINNES: I never heard that before.

MR. KESKEY: Which, by the way, burned down the home completely.

MR. MacGINNES: Yeah, that's not good.

MR. KESKEY: And I think there's even now insurance riders that are -- there's additional costs of the electronic cost --

MR. MacGINNES: Could you bring that information on that at the next meeting? I'd like to read about that.

MR. KESKEY: Sure.

MR. MacGINNES: Or maybe you can send it to the board.

MR. KESKEY: Sure.

MR. MacGINNES: Specific where, you know, the data, where it happened, when it happened, the fire marshal's report, I'd like to really drill down on that.

MS. RISON: It's in the back of my car right now if you want to see it.

MR. MacINNES: Well, then it will be easy to get to us.

MS. RISON: Yes, yes.

MR. SMITH: I think that's, you know, it's maybe a little bit of a ways off, but the diversification of the revenue streams for the utilities that they are going to be able to realize through advertising and marketing is pretty significant. You know, like right now DTE can tell you when my television is on and when my television is off, which is fascinating to me.

MR. MacGINNES: Really.

MR. SMITH: Yeah. And they don't do anything with that information right now, but it's -- they intend to, they fully intend to. They have an entire division on innovation that's like, wow, we've got all this information that it's suddenly very useful.

MR. MacGINNES: How do they know it's your television?

MR. SMITH: It's the incremental -- it uses specific wattage, right, so --

MR. MacINNES: But how do they know it's not a lightbulb?

MR. SMITH: Well, they know if it's a lightbulb uses a different amount of energy.

MR. MacINNES: Well, what if you have

some other piece of equipment that uses the same energy as a TV?

MS. RISON: They have an energetic pattern --

THE REPORTER: Excuse me. You have to speak up.

MS. RISON: They have an energetic pattern, they can tell if it's more of a toaster or a refrigerator or a furnace or something like that.

MR. KESKEY: Or they can tell when you have house guests or whatever you're doing.

MR. MacINNES: Yeah, yeah.

MR. SMITH: Which I think is, you know --

MR. MacGINNES: It's kind of scary.

MR. SMITH: There's a whole bunch of issues around that, but what I'm particularly interested in sort of the longer term is, you know, if the utility is able to generate revenue by marketing back to me or selling to the TV person down the road, like, hey, Conan has a 50-inch screen LED and he should get a, you know, 96-inch plasma, you know, that's an interesting question, right, about like where is the consumers' interest in that as it relates to like how the, how energy is ultimately paid for.

MS. RISON: NARUC actually said that the

data is more valuable than the actual electrons, you know, the service, and the -- goodness, I lost my train of thought. So NARUC --

MR. MacINNES: Could you speak up so we can make sure we get it on the --

MS. RISON: Yes, sure.

MR. MacGINNES: Yes, please.

MS. RISON: So NARUC says that the electrons are more valuable -- or excuse me -- the data is more valuable than the electrons that are being, you know, sold to us.

I guess I'm going to jump over to the item about energy efficiency a moment. The actual -- so the cloud, everyone's probably aware, you know, the storage units, that takes a huge amount of energy and everyone's pretty aware of that. I don't know if you're aware of the University of Melbourne has done, they had a whole research center that was funded by like Nokia and some other companies, and they found that the wireless access network uses ten times more energy than the cloud to store it. So to transmit the data compared to storing the data, that's -- it takes ten times more electrons to do that. There's no questioning of what the AMI system altogether over the entire system, how many more electrons that's using when you're thinking of energy efficiency, it's a huge, huge drain on those kind of things.

MR. KESKEY: Well, also, for example, Consumers Energy has a contract with Verizon to provide the wireless communication system from each residence to their input system, and that contract is going to cost money, and it's going to escalate, and all of the ratepayers are paying for it.

Now, there's another, another I guess sub-issue or iceberg below the water level here, and that is that do you recall how FERC and federal regulation over electricty has expanded from the Federal Power Act of 1935, which started off respecting the state jurisdiction a lot more than it does now, and then they expanded and expanded and then transmission and then MISO and of course now they have tariffs and MISO runs the show for the Midcontinent and part of Canada, and it's FERC-regulated tariffs, it used to be under state regulation because there was at one time the demarcation between the retail regulation by the states and the interstate commerce regulation by the federal government. Well, if you're going to have very sophisticated meters collecting data that knows everything that's going on in each household and essentially can regulate those appliances or start dictating when you replace your appliances, then -- and if it's a grid concept, modernization of the grid, so there used to be a demarcation that the meter between the customer's home and the utility was a demarcation between a customer's property rights absolute and the utility's rights; well, now is the definition of a grid, interstate grid now going to now by erosion go into your living room and everywhere else in your home, because you're saving demand costs or whatever for the grid, but the demarcation between the meter and state and federal regulation can be found by a court someday as to be federal regulation, because just like some cases that set a molecule of electricty, once it gets into the grid, it's interstate.

So it was an important enough issue for our state legislature to have addressed with up to a score of municipalities passing formal resolutions against the way the program is being handled, the speed of it, the cost of it, without these questions being addressed, and yet these important public policy decisions are not being made by the legislature, they're actually, the utility has got on the program, the MPSC has essentially made it all possible by mandating the tariffs and mandating the extra charges and setting at the beginning point that this was going to be a opt-out system, not an opt-in system. An opt-in system would have required advance consent by each customer before his meter was replaced, and that's not what's happening. So we have a wholesale fast implementation of a multi-billion dollar program when you had the existing meters were fully reliable, fully functioning, had remaining life left in them, and they're being scrapped and the scrap costs are being added to the rate base; in other words, the ratepayers are paying not only for the new meters and all the costs of that installation, they're paying for the old meters that were fully usable and which are being scrapped and junked. Well, do we need a program that went this fast? Did we need an opt-in -- I mean an opt-out program only rather than opt-in?

MR. MacGINNES: So I mean so this is philosophical, okay, I hear yeah, you make a lot of good points. But so what are -- what do you want to do? What's your role in this with our board?

MR. KESKEY: Well, in the two rate cases, and this was without a grant from the board, we presented these issues in testimony and briefing and still are, and so we're not asking you to do anything on that, I'm just informing you what --

MR. MacGINNES: Okay. Well, I think let's reign it back in here and get to more -- you know, it's 3:00 o'clock, and --

MR. KESKEY: Okay. Someone asked about legislature and the legislation, and I pointed out that this is another example of perhaps legislation could impact the issue.

MR. MacINNES: Yeah.

MR. KESKEY: Then the other issue we've been focusing on is in both Edison and Consumers, despite the test year is for 12 months projected out to the summer of 2017, 12 months prior to that, they're trying to include in this rate case both the, each utility, for increases in municipal taxes that were, with respect to Edison, implemented by the City of Detroit on January 1, 2012, which is about five years away from the test year, and which, for Consumers Energy, they want to retroactively increase their municipal tax expense for the last 23 years and put it in this rate case, they want to make regulatory asset out of it and amortize it into rates for the next 20 years. They don't -- they don't question the fact that the city municipalities all were paid the taxes in the past years, they don't contest the fact that in the previous rate cases and test years they could have recognized this or asked for this accounting authority. And the other important factor is that ratemaking is set whereby the utilities are given a tax factor, which is if you find out the utility has, let's say, an income deficiency of 100 million, you gross it up by 65 percent to provide for all theoretical federal, state, and local income taxes, and ratepayers pay that on that formula basis, and they should be indifferent, there should not be a retroactive accumulation of past tax expense and then put it into this rate case.

MR. MacGINNES: So you'll be arguing -- you've argued this in your --

MR. KESKEY: Yes, in our, both rate cases.

MR. MacGINNES: Okay. And when will you know how that's going to play out?

MR. KESKEY: Well, when the Commission must decide these cases within the next two to three months.

MR. MacGINNES: Okay.

MR. KESKEY: We have also advocated that the monthly service charge for residential customers be maintained at the current level.

MR. MacGINNES: Okay. Anything else?

MR. KESKEY: It's 3:00 o'clock. No, it's 3:10 now almost. But that's about it for now.

MR. MacGINNES: Okay. Well, you can keep us posted. A lot of this AMI stuff, it's kind of been out there for me, I don't -- I'm not close enough to it, but it will be interesting to see how the Commission looks at it, and I know there's been controversy around the country about it off and on for various reasons.

So okay. Any questions for Don here?

So let's move on to public comment. Is there any public comment? Okay. And hearing none.

Next meeting is December 5, and we're going to have Laura Rauch here with MISO, that will be fun to get her thoughts on what's happening with the grid and MTEP 17 and nuclear plants and Illinois and the U.P. solutions, save ratepayers money up there.

Okay. Do we have a motion to adjourn?

MR. SMITH: So moved.

MR. DINKGRAVE: Support.

MR. MacINNES: Okay. We're adjourned. Thank you very much.

(The meeting concluded at 3:10 p.m.)

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STATE OF MICHIGAN)
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COUNTY OF MACOMB)

I, Lori Anne Penn, certify that this transcript consisting of 101 pages is a complete, true, and correct record of the proceedings held on Monday, October 3, 2016.

I further certify that I am not responsible for any copies of this transcript not made under my direction or control and bearing my original signature.

I also certify that I am not a relative or employee of or an attorney for a party; or a relative or employee of an attorney for a party; or financially interested in the action.

October 10, 2016 Lori Anne Penn
Date

Lori Anne Penn, CSR-1315
Notary Public, Macomb County, Michigan
My Commission Expires June 15, 2019