

UTILITY CONSUMER PARTICIPATION BOARD

June 3, 2013

MINUTES

A meeting of the Utility Consumer Participation Board was held Monday, June 3, 2013, in the Ottawa Building, 4th Floor Training Room, Lansing, Michigan.

I. Call to Order

Jim MacInnes called the meeting to order at 11:07 a.m. Board members present: James MacInnes, Chairperson, Paul Isely, Vice Chairperson, Conan Smith, Susan Licata Haroutunian, Ryan Dinkgrave.

Others present: Michelle Wilsey, UCPB Board Assistant, David Shaltz, Residential Ratepayer Consortium (RRC), Connie Groh, Citizens Against Rate Excess (CARE), Ken Rose, CARE, Don Keskey, Michigan Community Action Agency Association (MCAAA), Christopher Bzdok, Michigan Environmental Council (MEC), Shawn Worden, LARA, James Ault, Michigan Electric & Gas, Ed Haroutunian, Peter W. Smith, DTE Energy, Jim Padgett, DTE Energy.

II. Approval of Consent Agenda

MacInnes proposed approval of the consent agenda. Haroutunian moved, second by Dinkgrave and motion carried to approve the consent agenda as presented.

III. Board Education

MacInnes introduced the board education session focusing on a view the future of nuclear power and the status of some of the projects. He introduced guest speaker, Peter Smith, Director of Nuclear Development, Licensing and Engineering, DTE Energy.

A copy of the presentation and additional materials referenced in the presentation are attached and included by reference to these minutes. The transcript of the meeting is also available with the presentation included.

At 12:40 p.m., the meeting was adjourned for a ten-minute recess.

IV. Business Items

- a. Staff Presentation of 2012 UCRF Annual Report by the UCPB

Wilsey presented the 2012 draft of the Annual Report to the Board and requested it be approved for release and public comment. Each section of the report was reviewed. The structure of the report was significantly revised in 2011 and the 2012 report follows this format. Highlights of 2012 were discussed. Wilsey noted the use of reserve funds as part of the annual allocation request allowed for the current level of resources, \$902,500, to be available to grantees. MacInnes commented that without reserve funds the resources available would be limited to the annual remittances to the fund, currently in the range of \$558,000 and emphasized the need for awareness and frugal use of funds.

Wilsey discussed the results section and noted the calculation in that section would be revised based on recent comments received from grantees. Once their claims were audited and verified, the results section

would be revised. MacInnes noted that if the annual investment is \$902,500, based on the current direct benefits (return) of \$8.5 million the ratio would be positive at approximately 10:1.

Smith asked if projects not receiving a grant due to lack of funds should be represented in the report? Wilsey pointed out the areas in the current report where sufficiency of funds was addressed. It is an area that can be expanded if desired by the board. Isely noted that pro bono work could be an indicator. Wilsey agreed but noted that the UCRF funds can be used in conjunction with other resources and is not necessarily the sole source of funding for consumer intervention. Measures were further discussed and will be considered for future data gathering and reports.

Isely moved, second by Dinkgrave and motion carried to release the 2012 UCRF Report to the Legislature for public comment.

b. Grantee Reports

Connie Groh and Ken Rose offered a report on behalf of CARE activities funded by the UCRF. Groh commented on CARE's general engagement with MISO, particularly with the Public Consumer Advocate Sector. Rose commented on areas CARE is monitoring. The first area discussed was the first MISO Capacity Market auction. Results of the auction generally came in lower than expected at \$1.05 per megawatt day. Some reactions were that it was really low and that is a good thing, others noted that MISO doesn't need capacity so maybe it should have been zero. Rose noted that the PJM Capacity market auction held last week came in lower than previous auctions at \$58 per megawatt day. He further noted that if capacity tightens in MISO, then you expect that price to start to go up in the not too distant future. Further information, analysis and details are provided in the CARE Status Report to the board. Next, Rose commented that CARE would participate in the MISO forward market vision workshop. He speculated that this workshop is a result of the supplier concerns about having sufficient incentive to build more capacity. There is thought of going to more of a forward capacity market rather than the current voluntary capacity market system used by MISO. A forward capacity market is similar to the PJM model. In general participation is required, with a few exceptions. The other issue of debate is that PJM has a forward capacity market for three years, MISO currently is contemplating a five-year market. Rose will also attend the SOG meeting following the market vision workshop. Rose said he learned of the Market Vision Workshop while attending a past SOG meeting noting that was an advantage of attending in person rather than participating remotely.

Utilizing funds from the supply adequacy portion of the project, CARE plans to prepare an update to the board on some of the events that have happened in MISO; in particular, the auction results and an analysis of the \$1.05 pricing result, and the possibility of going to a forward capacity market.

Rose then commented on FERC Docket No. AD 1216000, primarily concerning the seams issue. According to Rose, FERC is asking for presentations on the regional efforts to try to make the seams between RTOs less visible so that power flows easier between the different markets. CARE is mainly monitoring this process, not involved directly.

The issue for Michigan that's very important is that a lot of power is flowing from the southern part of Michigan into the PJM. Most of the power is generally flowing from north to south and then from west to east. PJM has a high need for capacity. Issues have come up about participation of generators in the MISO footprint, participating in the capacity market in PJM. You can't commit that capacity in more than one place, so that means less capacity available for Michigan, and the pressure will be for pricing to go up.

CARE will monitor presentations to FERC on the seams issue. They are also watching the power flows between MISO and PJM because it will affect Michigan both in the capacity market and energy market. Rose referenced the heat maps and said that you can see clearly when the price goes up in PJM, and there's still links where capacity can flow down, Michigan prices respond, and Michigan ends up with the highest prices in the entire MISO footprint. He concluded this is maybe more important for Michigan than any other state in MISO.

Haroutunian asked for more information on why the power flows out of Michigan. Rose explained the factors of geography and the workings of the eastern interconnect. Michigan is located next to the biggest (capacity and total amount of energy) RTO in the world with high demand.

MacInnes asked if there was any new information on the Northern Area Study. Groh responded that the northern area study technical review group has held several meetings. They issued a report on May 2, 2013. There is a timeline of actions/milestones. A few recent and upcoming items are: May 17, MISO to complete first draft of a report to post for the Technical Review Group review; May 31, TRG comments and changes due to MISO; and June 14, full report posted to the MISO website.

Groh commented that she also participates in the planning advisory committee meetings. In April, one of the successful efforts that CARE had related to the Business Practice Manual. The Business Practices Manual for MISO basically governs, subject to their tariff, their planning process. They're talking about making revisions to the manual governing out-of-cycle projects; those are those projects that are off schedule, and bypass the MTEP process. CARE was concerned with one of the criteria to be an out-of-cycle process. It included a fairly vague reference to regulatory approvals. The loose language might actually allow a state to strategically change, for example, its RPS requirement to qualify for the out-of-cycle review process. CARE advocated for a change in language and was able to raise attention get the substantive approval.

The issue it relates to is multi value projects (MVP). Multi value projects are cost shared at 20 percent. Out-of-cycle projects do not have the same process of review and, though generally very small, the cost could add up over time.

MacInnes commented that the UCPB intended to bring in a MISO representative to update the board. He invited CARE to present any specific questions ahead of time for consideration in the update. Rose said it was a good idea. The nature of their questions will depend on timing and what has been made public.

Isely asked Rose if he could comment further on the seams issue, particularly since PJM is such a major factor for Michigan. Rose responded that a small portion of Michigan is in PJM. AEP territory, Northern Indiana Power covers the southwest corner of Michigan. What AEP calls their backbone runs from that little corner of the southwest corner of Michigan down through Indiana, Ohio, all the way to Virginia, so it's a big part of their system that I guess you could argue originates in Michigan.

Isely asked if Rose saw their capacity gap getting worse? Rose indicated that it depended on several factors, particularly the status of the coal plants. PJM, like MISO is very dependent on coal, and coal plants are being shut down even without carbon limits. The age of the plants and new EPA rules, particularly like on mercury emissions and other ozone standards, are putting pressure on shutting down rather than retrofitting. New gas plants are being built. PJM has more at risk in terms of coal.

MISO has done an analysis on the potential for shutdown of coal. Even taking into account the potential shutdown because of the current EPA rules and standards, they would still have slight excess capacity. If you go a few years in the future, it's getting close to their margin, but it's a few years off. PJM would have more immediate issues. And that's actually part of the reason why they went to the capacity market in the first place, was to encourage building new capacity and also encourage the current capacity to stay there, because they had a lot of retirements prior to 2007. From PJM's perspective it worked in that a lot of those plants didn't retire that they expected to. But they won't stay there forever, so I think they got a real problem on their hands, particularly the far eastern portion of PJM. It's almost impossible to build a power plant in New Jersey and it's also very constrained in terms of the transmission.

The capacity market charge is close to a billion dollars a year just for New Jersey, and they haven't built a single kilowatt of power in New Jersey related to that. They have incentives for building solar and other things, but no conventional power plants as a result of that. Most of what's been built has been outside of that area. So it's not too surprising that they look north of the border, Michigan and Indiana, for potential capacity, and west, and would like to build the transmission through to take more of that capacity in there. A lot of those MVP projects are really moving that power from west to east.

MacInnes noted that they do not have the wind capacity that MISO has. Rose responded that some of that transmission is to move some of that capacity into PJM. It can't get there right now because of transmission congestion, even though it's connected, but once the transmission lines become congested, everything gets islanded and everything just stays right where it's being generated.

MacInnes asked if there are any looped flow problems with PJM in Michigan. Rose had not heard of any recently but noted it has been a chronic problem. They have been trying to improve control systems to address the issue but it still occurs.

MacInnes asked if there has been much work on the synchrophasor project to get more real-time, situational data on the power flow, voltage, current and phasing, etc. Rose said he has heard about it; MISO will do this sometime in the future. MacInnes noted that he believed they have added more PMU (phasor measurement unit) points. Rose noted that helps MISO control the flow a little bit better. It is part of the updating that MISO does all the time. They do a good job of managing their system.

Rose noted that with UCRF funding CARE is more concerned about the policies that would have long-term implications for what the costs are that the customers are paying, the economics of it. So having better control region-wide for a relatively inexpensive investment that would probably deliver a cost-benefit ratio that most people wouldn't argue about. But some these other policy things could have a big impact, and as everybody knows, prices in Michigan are going up, and it's among the highest now in the midwest.

MacInnes asked Rose how Michigan compares price wise to the PJM region? Rose responded that Michigan is generally lower, but we're catching up. It's Michigan now, the residential price I believe is the highest or tied with the highest, it's like a few tenths of a cent difference, it's tied with the highest in the upper Midwest region. New England may have the highest, Connecticut, Rhode Island, Massachusetts might still be higher still, and New York somewhere in the middle. MacInnes asked if they were in the New England ISO? Rose responded yes, separate from PJM.

The six states of New England are their own ISO. That's the old New England Power pool that became an ISO. And New York has it's own, too. FERC back 10-12 years ago, thought about combining them. It didn't happen. Now the seams issue is the way to kind of get at making sure the power flows easier, and

everybody knows a little bit better about what the others are doing, to avoid a 2003 blackout scenario, which caught New York by surprise when Michigan lost power first and the blackout continued through Ontario down into New York.

MacInnes asked MEC if they had a report. Bzdok responded that they submitted a case status chart. MEC doesn't have any PFDs or orders issued since the last meeting on any primary cases. MacInnes said the status report was good, he was excited about seeing the \$47 a megawatt hour Pheasant Run Wind Project from DTE Electric Company. Bzdok noted it was a PPA from Entergy and Geronimo Wind Resources, a company out of Minnesota, is contesting the approval of that project, claiming DTE proposed it as an unsolicited offer, not out for competitive bid. Presumably, Geronimo would not contest if they could not beat the price. This indicates that there continues to be room for price competition among the private wind developers.

MacInnes asked Keskey if MCAAA had a report. Keskey responded that they had submitted input for the annual report and the memo they prepared on nuclear power issues. Other than that they are busy with cases, hearing and briefing.

MacInnes asked Shaltz if RRC had a report. Shaltz responded that in the next three to four weeks RRC is going to hearing in all of the GCR plan cases of the major gas companies in Michigan. Probably the most interesting case is going to be the Michigan Consolidated Gas Company case. Five or six alternative gas suppliers have intervened into that case because MichCon is seeing increased loss of load to those competitors, and at same time, the GCR customers have to pay for pipeline capacity to reserve space in case MichCon has to serve as supplier of last resort. So MichCon has proposed what they're calling a reservation charge to be paid by these alternative gas suppliers. This will be a contested issue in that hearing. Also, with MichCon, it's sort of the last holdout of utilities committing to large parts of their supply portfolio being purchased under fixed-price purchasing. They're still purchasing at a 75-percent level, whereas SEMCO and MGU and Consumers now are now well below 25 percent. With those utilities, we've seen a dramatic decrease in their gas costs because they've moderated on fixed-price purchases. The Commission in its last order, too, for the major companies have said that finally in this round of GCR cases, the Commission is going to really look for the utility to justify continuing purchasing at that level. RRC has again put in testimony to show why that's not justified. I think this is sort of going to be the case where there's a real showdown on this issue with MichCon. So it should be very interesting.

V. Public Comment

Smith suggested that in future budgeting and grant approval processes that the board consider the cost recovery cases as the core function of our granting. They deliver that tangible return on investment. The board also funds projects like the MISO investigation that are important to us that we think have long-term implications for the rates that Consumers will pay, but aren't going to show sort of the immediate ROI that a cost recovery or reconciliation case would. It might make sense for us to consider segregating those functions so that our current income (\$558,000) from the statute is being dedicated to those ongoing activities, the recovery cases, and that our reserve funds are being applied towards those strategic investments.

MacInnes clarified the point, that Smith was not saying we don't consider the longer-term projects, you're just kind of trying to segregate the amount we might invest in that? Smith responded that his point was essentially making sure that the UCPB have funds reserved for those strategic investments going forward, so

we're sensitive to the desire to invest in those and recognize that this MISO thing is probably years away from fruition, so it's going to require some longer-term investment.

MacInnes said the board could certainly think about that and how that might work.

VI. Next meeting - MacInnes announced the next meeting of the board is scheduled Monday, August 5, 11:00 a.m.

VII. Adjournment – Haroutunian moved, second by Smith and motion carried to adjourn at 1:51 p.m.

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

Transcript available.