UTILITY CONSUMER PARTICIPATION BOARD

August 26, 2013

MINUTES

A meeting of the Utility Consumer Participation Board was held Monday, August 26, 2013, in the Ottawa Building, 4th Floor Training Room, Lansing, Michigan.

I. Call to Order
Jim MacInnes called the meeting to order at 11:21 a.m. Board members present: James MacInnes, Chairperson, Paul Isely, Vice Chairperson, Susan Licata Haroutunian, Ryan Dinkgrave. Members absent: Conan Smith.

Others present: Michelle Wilsey, UCPB Board Assistant, Christopher Bzdok, Michigan Environmental Council (MEC), Dan Scripps, Institute for Energy Innovation (IEI), Bruce Goodman, IEI, Doug Jester, IEI, Don Keskey, Michigan Community Action Agency Association (MCAAA) and Great Lakes Renewable Energy Association (GLREA), John Sarver, GLREA, David Shaltz, Residential Ratepayer Consortium (RRC), John Liskey, Citizens Against Rate Excess (CARE), Robert Loube, CARE, Robert Burns, CARE, Ken Rose, CARE, Connie Groh, CARE, Ed Haroutunian.

II. Approval of Consent Agenda
MacInnes proposed approval of the consent agenda with the addition of "appointment of Vice Chair" as business item (d) and a correction to item no. 4 on correspondences changing "MEC" to "MCAAA". <u>Haroutunian moved, second by Isely and motion carried to approve the consent agenda as amended.</u>

II. Business Items

a. MCAAA UCRF 13-01 Grant Amendment Request

Keskey reported that MCAAA submitted a grant amendment memo to the board for UCRF 13-01 after analyzing the cases. They decided that it would be beneficial to transfer funds from some of the other case budgets to the Consumers Energy PSCR reconciliation case. In the Consumers case, MCAAA is trying to concentrate on discovery and forge a settlement proposal. The memo details the transfers from other cases to the Consumers Case as indicated below. This is a transfer of funds within the grant and no increase in funding is requested.

	Cases	**Authorized budget**	**Change requested**	**Amended budget**
Transfer From	U-16482-R	$9,524	($3,479.45)	$6,045
	U-16999	$16,665	($590.85)	$16,074
	U-17097	$13,029	($1,647.81)	$11,381
	U-17131	$12,500	($59.09)	$12,441
Transfer To	U-16890-R	$25,048	$5,777.20	$30,825

<u>Isely moved, second by Haroutunian, and motion carried to approve the MCAAA UCRF Grant 13-01 transfer amendment request as presented.</u>

b. MEC UCRF 13-04 Grant Amendment Request

MEC proposes to transfer the refund of $4,000 from Synapse to the Consumers PSCR reconciliation case. The board previously declined a transfer of the funds request to pursue expansion of EARP citing it was not a core PSCR issue. Bzdok explained that in this transfer request, MEC would like to investigate the dispatch of the Zeeland combined-cycle plant. According to Consumers' numbers, during every month of 2012, the Zeeland plant was the cheapest unit to dispatch of any Consumers generating unit. Yet the capacity factors of the plant varied greatly; 48 percent in January up to 94 in February, to 78, to 91,down to 42 in May, and then very low in the fall. Based on discovery, planned and unplanned outages do not explain the variation. The transferred funds will be applied to pursuing this issue further. MEC is also looking at the cost trendline for one of the biomass merchant plants, T.E.S. Filer City. Its "excess costs" recovery is the only one that has increased every year. They have increased 20% over a four year span. No new funds are being requested.

MacInnes asked what the percent of biomass is that is being fired in the Filer City plant. Bzdok was not certain of that number. The number MEC is interested in is their overall fuel plus variable O&M because that's the amount that, to the extent it exceeds the payments they get under PURPA on their contracts, they can ask for under statute. Bzdok will follow-up with the information requested.

<u>Haroutunian moved, second by Dinkgrave, and motion carried to approve MEC UCRF 13-04 grant amendment request to transfer $4,000 of refunded funds from Case U-17087 to Consumers PSCR Reconciliation Case U-16890-R as presented.</u>

c. 2014 UCRF Grant Applications

Wilsey noted that new grant applications were received from CARE, MEC, IEI, GLREA and RRC. RRC has opted to defer its oral presentation until a time closer to the filing date for the cases it is seeking 2014 UCRF grant funding. They request the board reserve sufficient resources for full consideration of their grant request. Shaltz suggested they would seek board consideration at the December 2013 meeting for the GCR Plan cases and June 2014 for the GCR Reconciliation cases.

CARE 2014 UCRF Grant Presentation – Liskey explained that the 2014 UCRF grant funding request from CARE is a two-part request. One part is to continue PSCR case activities with Upper Peninsula Power Company, Alpena Power Company, Indiana and Michigan, Northern States Power (Integrys), Wisconsin Public Service Corporation, and Wisconsin Electric Power dba WE Energies. In total there are 12 cases comprised of 6 plan cases and 6 reconciliation cases. CARE has been involved in these cases for four years. The second part of the request is to continue participation at MISO. Liskey introduced Dr. Bob Loube. Loube is the expert in the WEPCo, I&M, Alpena Power and Northern States Power Company cases. The most significant issue in these cases are the mines pulling out of WEPCo. They traditionally have taken 75-80% of the power. CARE is concerned with the impact of their exit from the utility market on the residential ratepayer. Liskey asked Loube to comment on the issue in the context of the PSCR cases. Loube explained that the initial primary concern is what happens with the under-recovery that exists today, and who pays for that in the future. You typically determine the assignment of the under-recovery by dividing the amount by the number of kilowatt hours. However, if those kilowatt hours decline suddenly and substantially because one major customer leaves, then the burden of the under-recovery is spread over the remaining customers and their PSCR factor goes up. For example, it could go somewhere from .4 mills to 3.4 mills. It will be a very substantial impact on the remaining customers. The question CARE will investigate is whether the utility acted prudently in trying to retain the mines. The standard in PSCR cases is prudency. It will be difficult to determine if the company was working to a reasonable degree to retain the customer. MacInnes asked if the mine closed. Liskey responded that Empire Mine is closed. Tilden Mine signed a purchase power agreement with

Northern States Power (Integrys) effective September 1, 2013. Loube noted that the demand is not going away in the Upper Peninsula. They will have to look at the broader effects of the shift but still be concerned with the specific impact and responsibility of the costs incurred by WEPCo to serve the Tilden Mines.

MacInnes asked how this will affect the Presque Isle plant? Liskey asked Connie Groh to discuss that with the Northern Study update. Groh reported that the WEPCo / Wolverine joint venture has a settlement and approval to go forward. As part of the settlement agreement, they must provide a quarterly status report. In the most recent quarterly report they referenced the potential modifications given WEPCo's "Loss of load". In WEPCo's filings in a case before the Michigan Public Service Commission dealing with accounting authority to defer unrecovered costs of implementing Customer Choice they are saying that MISO is not going to allow them to abandon Presque Isle. MacInnes noted that would affect the Northern Area Study options.

Loube continued his assessment of the PSCR activities saying that CARE would also audit the standard issues in the reconciliation cases such as forecasts. For example, CARE managed to get WEPCo to recognize the lower natural gas prices and lowered costs. In the I&M Power case CARE requested a $1.5 million adjustment and the Commission granted nearly all of it.

Haroutunian asked Loube, that in regard to the Mine that closed, how would you make an argument that the company acted imprudently in losing that customer? Loube said that is difficult but you would look at the planning stage. He provided an example from his experience at the Indiana Commission when the steel mines were shutting down. They examined whether the Indiana Companies seek an independent view of the steel industry to determine the need for power or did they simply rely on the company executives for information. This is especially critical if they are still building capacity – did they take reasonable action to understand the going forward need for power and get independent verification.

Liskey asked Dr. Ken Rose to comment on the MISO part of the grant work plan. Rose noted that CARE would like to continue work on capacity market issues. He reported extensively on their work at the last meeting of the board. A development since then was that the independent market monitor of MISO suggested to FERC that MISO might need a minimum offer price for the auction.

This arose from activities in other states, like New Jersey and Maryland, where they tried to have their own power plants built and then bid the price into the auction to lower the price. Suppliers protested and FERC instituted what they called a minimum offer pricing rule (MOPR). As discussed previously, the results from MISO auction were very low prices. FERC has said they would like to entertain comments on this idea here and requested comments by September 11. The date will likely be extended because this is such a big issue. CARE would like to be involved in this issue, study what is going on and possibly submit comments.

Liskey also noted that CARE is focusing on 2-3 of the 40 plus MISO committees where they feel the biggest dollar savings can be realized for Michigan residential ratepayers. Some of these issues are internal process. For example, Rose has focused a great deal on congestion that Michigan experiences, driving up costs. Accordingly, CARE has advocated for collecting and reporting End Point Nodal Prices at MISO. Burns explained that end point nodal prices are the price that you have to be aware of if you actually want to affect the amount of congestion on the system and to lower the wholesale prices which will in turn help to lower the retail prices in Michigan. CARE supported releasing those historical prices along with other parties. Some countered that the prices were just too market sensitive to release. CARE was able to effect change and MISO is going to begin releasing those prices after January 1. CARE also recently commented on a tariff change that was proposed at MISO that was going to change the amount of load resources each load resource zone needed. They were going to make it so that each load resource zone had to stand on its own for its own zone's momentary peak instead of having the zones look at the coincident peak of the system. What this would have done would have required more resources in every single zone. They were going to put this in as a tariff change and make it effective next year, and it would have driven all of the areas in Michigan in two areas to require more resources, possibly more power plants. CARE got comments drafted quickly, circulated it to the consumer group, and this morning we found out that they were able to defeat the recommendation to have that tariff change. The vote was 20 opposed to 19 in favor, so it was a very close vote. MISO could still propose the tariff change to FERC but it is noted if they recommend something that was voted down by their stakeholders.

MacInnes asked why they would have proposed the tariff change? Rose speculated that MISO is very concerned that a lot of power plants are being shut down because of compliance with the EPA rules. I think they're looking for ways to expand resources. The problem is, they kind of wandered into something that seems contrary to what the whole notion of having an RTO is. The idea of the RTO is you're sharing resources across as big a zone as possible. The proposed tariff required each zone to stand on its own.

Liskey commented that this intervention arose from on-going monitoring of the supply adequacy resource workgroup committee. Burns and Rose identified the issue and responded quickly. They gained the support of all 11 members of the consumer group sector and cast their 2 votes against. This leadership changed the outcome.

Liskey noted the short timeframes under which these issues arise and are decided. The board has adopted a practice of metering out funds throughout the year and taking a closer look at cases as they develop. What CARE is asking for in their grant application for the MISO activities is for the board not to do that because the issues arise so quickly. CARE is requesting a grant for the full 12 months because of the fast-paced dynamic of the MISO process. As the examples demonstrate, there would not be time to come to the board for funding given the short comment periods.

Groh noted that is the case in the planning advisory committee as well. The planning advisory committee is focused much more on process. Right now is the time of year where out-of-cycle projects are considered. These are smaller, more emergency projects that are not in the MTEP plan. Just recently an emergency meeting was held to approve a couple of projects. MISO had not followed the process and one of the major players in the projects was concerned. Public consumers were allied with OMS to assure the integrity of the process. A few voices can make a difference.

Dinkgrave noted it was an interesting proposal citing the MISO work in particular. He asked Liskey to comment on and provide justification for the significant increase from $25,000 in 2013 grant to the 2014 request of nearly $120,000. Liskey responded that there was a great deal of pro bono work done in order to establish the importance of the work and demonstrate the impact CARE could have. The current budget request reflects the actual level of work.

MacInnes commented that he was particularly pleased with the work on transparency issues. He has been discussing this issue with the governor's office for a few years. Specifically, he emphasized the need to gather more data in order to make better decisions for Michigan ratepayers. He asked CARE how they plan to use that data. Liskey suggested the governor's office could use the EP node information to better target their demand efficiency programs. Loube responded that he felt everyone in the room could use the data. In PSCR plan and reconciliation cases, for example, a great deal is bought through MISO and discovery requests only provide you with a bit of information. If the whole picture is put into the public record and you can access it with a one-year lag, it would definitely help in the reconciliation cases.

MacInnes asked how many EP nodes were in Michigan. Rose responded thousands - every power plant, transmission line, every load center, load point, some stations. Phaser measurement units (PMUs) would not be an EP node. They are not an end point but are something that reports back. MacInnes explained that they also provide useful data to make decisions from. Burns commented that the end point data would help with placement of the PMUs to get the biggest benefit.

With regard to the grant request, MacInnes commented that the one area that he is concerned with is more detailed reporting of time. These are not cases but various meetings, monitoring, etc. It is important for cost control. MacInnes would like a monthly sheet broken down by activities, people, hours, dollars. He basically wants to be able to monitor who is pending time on what, time spent, travelling, phone meetings, etc. Liskey suggested breaking it down by committees.

MEC 2014 UCRF Grant Presentation – Bzdok gave a brief overview of the Michigan Environmental Council and the work MEC has done with the support of the board over the years. He also noted MEC is doing more work with partner organizations and in related areas, not eligible for UCRF funding, but beneficial to residential utility consumers. Bzdok noted that they have submitted an overall grant for Consumers and DTE electric PSCR plan cases for 2014, PSCR reconciliation cases for 2013, and renewable energy reconciliation cases for 2013. At this meeting, they are presenting phase one cases only, which includes the 2014 PSCR plan cases for Consumers and DTE. He also noted that in the initial grant request MEC had asked for funding and approval of Consumers general rate case that they anticipated would be filed. Consumers, however, has announced that they are not going to be pursuing a rate case at this time, so the request is withdrawn. This withdraw reduces the overall requests for the year and phase one by $45,450. That amount is offset by an increase in MEC's request for the Consumers PSCR plan case. This brings the Consumers request in line with the DTE case and it is the only Consumers case MEC is focusing on with board funds.

Bzdok explained that the overall approach that MEC takes in these cases is to select and pursue issues where there's overlap between reducing costs for residential customers and environmental benefits, principally clean air type of benefits, but not exclusively. MEC has been pursuing advocacy on two fronts. One front is within the context of the plan year - what sort of cost projections should be reduced. Then in the reconciliation - what sort of disallowances should be made, what differing approaches to strategy. The objective is to get different approaches to some of these issues or rulings or warnings from the Commission for the planning year. Then, in the reconciliation, we try see how did they do, what did they represent going into the plan, and what did they do coming out after the end of the plan year.

The other front has been the five-year forecast. In the recommendations to the legislature, the board presented the point that the Commission needs to pursue more rigorous review of those five-year forecasts as a means for future cost containment. MEC agrees with that, and it is of particular importance at this point in time. The filed forecasts in 2014 are going to run through the 2018 calendar year. Between now and then, there are going to be a number of things that are going to have to be fully implemented or possibly fully implemented; that includes compliance with the Mercury and Air Toxic Standard in 2015-2016, or MATS. As an example, DTE is proposing a lower capital investment way of dealing with that rule that's going to increase its PSCR costs by an estimated $20 million a year just for the sorbents involved in those controls; retirement or mothballing, and we hope retirement of the Consumers seven classics, which has been pushed back a year but is still going to now happen within that five-year horizon; conversion of some plants by Consumers and DTE to a hundred-percent western coal, that has some implications for the control of sulfur dioxide, it's going have issues with the one-hour NOx standard because some of these mercury controls that are going to be used have a negative impact on the efforts to meet the one-hour NOx SO_2, and a determination of what areas of Michigan are in compliance with that standard and what areas are not within compliance. There's going to be stricter regulation of coal ash under the Resource Conservation and Recovery Act, that's sometimes called the Coal Combustion Residuals Rule, that's likely to be implemented within this timeframe; possible issues would include the Clean Water Act, Section 316(b). This is a section of the Clean Water Act dealing with basically impacts on fish and wildlife within the water, often heat, but not exclusively heat, entrainment in grates and filters and things is another issue. That may or may not be fully implemented by 2018, and, that may or may not require large capital investments, that may or may not include some PSCR costs, that remains to be seen. Carbon regulation, most of the wind capacity required by Public Act 295 is going to be on line, and Consumers is proposing to have the Thetford natural gas combined-cycle unit up and running within the horizon of this five-year window.

In the business as usual case, Consumers Energy's total PSCR costs over that five-year horizon are projected to rise 22 percent. The coal costs are going to come down briefly because of this conversion to all western coal, which is cheaper than eastern coal, at some units, and then they're going to start rising again at a fairly good clip 2015 to 2017. Five issues MEC is focusing on in Consumers are: dispatch, Thetford, carbon, wind, and line losses. MEC will focus on some of the same issues in DTE.

Bzdok explained that dispatch is something of a Gordian Knot that MEC has been unwinding sort of loop by loop and here and there. It's gotten really interesting in the last couple of years because the coal costs continue to rise, driven largely right now by rail transport, but the all-in cost of burning coal, including the emissions sorbents and some of these other things places upward pressure on costs. The shale gas trend has reduced the cost of burning natural gas but the long-term growth trendline on that is much shallower than the growth trendline on the coal. We have this situation with, depending on energy demand, depending on times of year, resources in competition with each other.

MacInnes asked Bzdok to clarify what he meant by the long-term growth trend of gas. Bzdok said he was referring to price trends. When you look at the all-in cost of burning gas for electric generation and we project those out, for example, over the five-year time period and look at the all-in trends on coal, burning coal and its associated emissions type issues that the natural gas doesn't have or doesn't have to that extent, we're seeing a sharper increase on the coal side than on the gas side. He commented that the PSCR cost of burning coal is going to continue to rise higher than the PSCR cost of burning gas, including emission allowances, sorbents, etc.

Competition between units is setting the market price of energy. The conventional wisdom had always been that the coal units were the base load units and the gas units were for peaking and ramping, and there's some things about those units that makes that appropriate. What's getting really interesting during these time periods when the gas outcompetes coal is how the utilities are responding to that and how is that paradigm being disrupted and where is it going to settle out. A really interesting thing we saw last fall was the cross-exam of the modeler for Consumers' PSCR plan for 2013 in which she told me that she modeled all of the coal units, rather than must run, rather than you always have to run it your minimum load no matter what, she ran them essentially as cycling resources to go up and down based on prices during all months except for July and August. That, in itself, is very interesting. The reason she did that was because she said that was the least-cost scenario in the model. He understood her to mean was once you take a coal unit down, it's not economic to start it up again for a very long period of time, and so they're remaining out for a longer period of time, and that's lowered overall cost. What's then more interesting is that coal units are then used as cycling units. The baseline assumption of all PSCR cases is we model, we do a plan, this is what we're going to do, and then we come back in the reconciliation and balance the checkbook. However, there is this disparity between how Consumers is modeling and what Consumers is actually doing. I just got a data of all the must-run designations and all the different hours. That issue is going to continue to be a major focus for 2014. MEC has discussed in the past burned cost of coal versus replacement cost, and you're charging the customer one thing, but you're setting your bid based on a different price than what you're charging the customer, and the price you're charging the customer is higher, and so you have some issues there as well. Thetford kind of plays into this, and MEC is not asking for money for the CON case about whether Thetford should built and at what cost and what size. The issue is that Consumers is projecting over the next five years that the demand for generation from Zeeland is going to go down because the natural gas prices are going to have this modest increase. On the other hand, they are projecting enough demand for natural gas generation that they want to build a 700-megawatt plant at a $750 million price tag to add into the rate base and have the customers pay for because that's being driven by demand for natural gas generation. Those two things are inconsistent, and what we're often finding as we gain experience in these cases is that oftentimes different projections are used for different cases.

MacInnes asked if MEC looked at the heat map from MISO and where the red area is located. The proposed plant is in the red area versus the Zeeland Plant. He inquired whether MEC has looked at how locational difference may be a factor. Bzdok responded it is one of the primary issues where they will focus their examination. Other factors, e.g., size of the plant, will be considered as well. It is early in their examination and there is support for the idea that generation is needed at that location. MacInnes asked about the EP Node price information being considered in the CON case. Burns noted the data will begin in Jan 2014. Bzdok noted the data will be helpful in many ways once it is available.

Bzdok also discussed MEC's focus on carbon as related to the forecasts in these cases. They are examining the data and the companies planning assumptions with regard to carbon and carbon regulation.

Bzdok discussed MEC's focus on wind also in relationship to utility forecasts. They are particularly interested in the trendlines for privately developed wind energy prices and the utilities' own market energy prices in forecasts. They will continue to pursue line losses. Utilities have presented more recent figures on line losses that are driving higher projected PSCR costs but at the same time their data on line losses are lower. MacInnes noted that the national trendline on line losses is down. Bzdok agreed and said that investments in the distribution system should eventually result in cost efficiencies and be reflected in lower projections on line losses.

Bzdok then commented on the DTE cases. MEC was pleased with the detailed analyses in the PFD but disappointed with the adverse decision in U-16892 on the REF issues. MEC will continue to focus on DTE's business-as-usual scenario in their PSCR forecasts and, given their increasing cost trendline, try to persuade the company and/or commission to consider alternatives to reduce the cost of generation. Some of the comments related to carbon regulation also apply to DTE .

MEC is also joining with the AG in opposing the roll-in of under-recoveries into the next PSCR plan year. In the DTE cases, these huge under-recoveries occur year-after-year. The AG has raised the issue that this constant rolling in of under-recoveries causes inequities between the customers five years from now and customers today. Customers in the future will be paying for extra costs being incurred today. This builds a liability and the cost recovery process should be more timely and transparent. MEC agrees with the AG and will coordinate and support efforts on this issue.

MacInnes commented that it sounded similar to the municipal pension liabilities that are now coming to the fore. He asked MEC if they are looking at the Thetford plant certificate of need. It did not appear they were requesting funding for that issue/case. Bzdok responded that they are working on the case but it is not with UCRF funding. There is an overlap of issues however, and he will keep the board informed of their work in the case.

IEI 2014 UCRF Grant Applications – Dan Scripps noted that IEI was a first-time applicant for UCRF funding. He introduced his colleagues, the legal, administrative and expert team and provided a brief overview of the organization. All of the information was provided in advance in their complete grant application.

Scripps then summarized the cases and workplans submitted for funding consideration. Their proposal includes three PSCR planning cases, the Consumers Energy, DTE Energy, and Indiana Michigan Power cases, and funding for two GCR planning cases, the Consumers GCR and the DTE/MichCon GCR. Approximately 75 percent of the funding requested is for PSCR cases and 25 percent is for GCR cases. IEI has had initial conversations on coordination with MEC and the AG on common cases if they are funded.

Issues IEI has identified in the application include in the PSCR context, or planning context, distribution, reliability and grid resiliency, energy efficiency and energy optimization, demand response, particularly in the Indiana Michigan Power service territory because of their relationship with the PJM interconnect and PJM's relatively well-developed demand response infrastructure, the voluntary purchase program for renewables and integration of renewables more generally, cost allocation between rate classes, payment discounts and how those are treated, and data access and transparency, and then finally, incorporation of the concept of a levelized avoided cost of energy in addition to the levelized cost of energy. In the GCR context, three of the same issues, the energy optimization/energy efficiency issue, data access and transparency, and the treatment of payment discounts will be examined. Once the cases are filed, they will identify the most important issues and define the strategy they will use to pursue the issues in individual cases. IEI has requested funding in the planning cases as part of this first application but their intent is to stay in the cases and be involved in the reconciliations as well.

Haroutunian asked Scripps to explain IEI’s connection with residential ratepayers as opposed to industry. Scripps noted that they are a non-profit. They do have a partner organization which is a separate entity called the Michigan Energy Innovation Business Council, which is a trade organization. They may offer some synergies but IEI’s mission is much broader. Its mission is not about industry, it is about increasing public understanding of the transition of the energy industry and advanced energy. These interests align with residential ratepayers.

MacInnes asked Scripps if, based on his review of Act 304 and his analysis of the law, he can assure the board that there is no conflict of interest that his organization would have with the requirements and terms that are outlined in Act 304? Scripps responded that is correct. MacInnes asked if any utility representatives were on their board. He said no. Scripps stated that IEI does not have any contracts with utilities. There have been attendees of events from utilities but they are not sponsors. The events are open and they can attend like anyone else.

Haroutunian commented that the board’s charge is to support applications representing residential ratepayers. The board needs to understand how their application impacts residential ratepayers.
Jester responded that the kinds of pressures that IEI is talking about bringing into the conversation on the PSCR cases are really designed to lower the costs to all ratepayers. For example, electricity price peaks occur even at low demand periods. Demand response can reduce price peaks and lower the cost of power to all

ratepayers, including residential ratepayers. Scripps added that if this is a successful application and IEI is granted funding to represent residential ratepayers, that will absolutely be the focus of their representation.

Isely asked Scripps to elaborate on the differences IEI sees between the I&M Power PSCR case and the other two PSCR cases because the funding request for that case is more than 10 percent of the total funds available for a company that has 2.5 percent of the consumers.

Scripps responded that the opportunity is related to the fact that I&M is in the PJM instead of MISO. PJM has a more sophisticated, well-developed demand response market than MISO does at this time. IEI would like to demonstrate how residential ratepayers benefit from that demand response market, basically model these changes for MISO and the other two major IOUs in Michigan and provide information on how such a market might benefit ratepayers more broadly. IEI will try to develop the precedent using the one IOU that's in the PJM interconnect and apply it statewide. Goodman added that there is a lack of information available about PJM in the Michigan regulatory proceedings and they would like to bring it forward. There are other cases, such as transmission, that would also benefit from broadening the understanding of the PJM and MISO interconnect. These ancillary benefits are hard to quantify but real nonetheless.

MacInnes asked how they see the question of distribution reliability complying with Act 304 and benefiting the residential ratepayers. Scripps responded that distribution reliability very directly affects issues central to transmission. For example, transmission costs need to include costs associated with the MISO Schedule 2 for reactive supply and voltage control, and work on distribution systems related issues can lead to benefits there. Line losses have already been mentioned and would be an area of interest and coordination. Distribution reliability can have a long-term positive effect on residential rates, but the statute is broader than that and it talks about the benefits of residential customers more broadly. This focus on reliability in the distribution system as well as the generation context is an example of the broader benefits there.

MacInnes asked if IEI would be looking at the benefits of distributed renewable energy? Scripps responded, yes. That issue related to integration of renewables more generally, the way that the voluntary purchase programs work. MacInnes asked if they had personnel on the team that could actually quantify some of those benefits and make a case? Jester responded that he is capable of the work and has done similar work in other cases. Many of the measures that a utility can pursue to increase reliability also have benefits in terms of line losses and other aspects of usage. The cases demand accounting for those multiple benefits and selecting the arguments in the appropriate cases. So VAR control can improve the reliability of elements in the distribution grid, it also can reduce energy consumption by as much as three or four percent in a distribution network, and that's a direct gain in the PSCR. These things have to be parsed out to a certain extent, but they're definitely connected.

Wilsey noted that IEI's team consists of accomplished, well-known experts. Since they are well-known advocates of the interests of alternative energy companies, how will their testimony be discernible in UCRF funded cases with IEI? Scripps responded that when we're doing UCRF cases, we will be making arguments that are wholly consistent with the UCRF mandate in the statute. Wilsey noted that the board has typically relied on the presence of a clearly identifiable residential group or history of prior representation of residential interests to determine eligibility. That is why the board is questioning IEI so extensively.

MacInnes acknowledged concerns with IEI achieving standing but noted that the Commission will be making those decisions.

MacInnes raised a concern with the fee structure proposed by IEI. Scripps discussed their consideration of rates, public services rates, blended rates. He is open to a conversation of how to structure fees and shared different ideas. MacInnes acknowledged the discussion. He noted rates are not fixed by the board but they should be supported and justified in the application, consistent with the public service nature of the program. Comparative value is a consideration for granting funds, so demonstrating in clear dollars the leverage or impact is important.

GLREA 2014 UCRF Grant Application – Don Keskey introduced John Sarver, executive director of GLREA. Keskey described the organization, its organization, mission, activities and membership. Keskey explained that the grant proposal would focus on the upcoming PSCR plan cases for Consumers Energy, DTE, and also Indiana Michigan Power.

One of the most direct costs charged under Act 304 are the purchased power costs under MISO. These involve both sales of energy by the utilities to MISO, or in I&M's case, PJM, and the purchase back of the energy. When the sales revenue of energy to these regional organizations is less than the cost to purchase the power, you incur substantial impact upon Act 304 costs and Act 304 rates. This is the situation with Detroit Edison, Consumers Energy and Indiana Michigan Power. For the current year, it's going to be quite severe because of the failure of the Fermi nuclear plant to operate properly at a very low capacity, and outages of the Palisades plant.

GLREA will focus on the greatest costs of purchased energy, and fuel costs, and other costs such as system peaks. System peaks in Michigan occur in the summer and alternatives such as solar should be investigated. According to Keskey, there is a real nexus between the residential use of energy during that same peak time because of air conditioning loads of residential customers which come online in the summertime and the system peak for both the utilities and the regional organizations. So if you could mitigate or start empowering residential customers to mitigate the peak of the utility, and in the process save costs on their own utility bill and contribute energy to the grid, you are making a significant contribution to this cost problem and you're empowering the residential customers to be able to address on a decentralized level their own energy costs and their own energy consumption. That's the short-term benefit. A longer-term benefit is the more that residential use of solar comes online to address these peak costs, the more that it empowers or energizes an industry to produce, install and help the residential customers with this effort. The costs GLREA will be addressing are directly related to Act 304 for the benefit of residential customers. Examples of “solar gardening” and community solar were provided.

Keskey further commented that in Michigan today, the Michigan utilities are nowhere near meeting the allotment in the legislation for net metering participation, either category 1 or 2. The statute clearly provides for the utility to use all reasonable and prudent efforts, to take all regulatory actions to minimize their costs. That's an important test under Act 304. With solar, you can save a number of costs; fuel, purchased power, congestion costs, potential costs on line losses, transmission, distribution, etc. as well as achieve indirect cost savings.

The experts participating in the GLREA application are experienced in MPSC cases, and Keskey believes the organization will be able to achieve standing and intervene in the cases proposed for UCRF funding.

Sarver made a few comments about GLREA. He noted that they are a well established, statewide non-profit. He believes there is a lot of interest in solar electricity and other renewable energy technologies, and the utilities are not capturing this interest on the part of their residential customers. And, there is a real opportunity here to reduce power purchases that come at peak times. This initiative would explore a lot of different ways within the constraints of law and regulation on how to really maximize that opportunity.

MacInnes asked if the focus of this proposal is just solar PV or would Keskey continue to look at coal handling costs or anything else like that as he had have in the past for other organizations? Keskey responded that the proposal would focus on the renewable energy issue and addressing the peak costs and anything related to that.

MacInnes asked about the safety issues, for example when there is a need to disconnect, utilities have raised with regard to solar PV. Sarver responded that net metering has been set up in other areas and through utilities' policies and more sophisticated inverters and controls, safety concerns have been addressed. Keskey said it is important to eliminate any artificial obstacles that might be inserted into interconnection agreements. MacInnes noted that balance of systems costs also have to be addressed. Sarver noted that the State of Michigan Energy Office has had an initiative over the past year to help drive down those costs.

MacInnes asked if Keskey definitely believes this proposal is in line with Act 304 and reducing the cost of energy to residential ratepayers. Keskey responded yes, it's directly related to the Act 304 costs and rates, and it is to be directly focused on the residential customer members and other residential customers in the service territories of these three utilities. He stated it is plowing new ground but it is directly under the scope of Act 304.

There was general discussion as to why the utilities are not meeting their limits and options to improve performance. Wilsey commented that the Commission in the past has not been willing to order the utilities to offer a program (esp. through a PSCR case). Keskey responded that the Commission has made various decisions. MEC would also look at forging voluntary programs and agreements.

At 1:53 there was a 50 minute recess.

II . (c) ii. 2014 UCRF Grant Approvals

MacInnes noted that the board was pleased to see new potential grantees apply to the program. In awarding grant funds they are trying to strike a balance between traditional cases and new, innovative ideas and concepts. MacInnes asked Wilsey to briefly discuss the status of UCRF funds managed by the UCPB. Wilsey responded that the appropriation approved and thus funding available for grants in 2014 ($950,000) is comprised of two parts. Part one – approximately $540,000 – is derived from revenues from current assessments on qualifying utilities. The second part – roughly $360,000 – is from reserve funds. An administrative fee of 5 percent ($47,500) is deducted from the funding available for grants. This leaves total funding available for grants of $902,500. Any grant funds approved but unspent at the end of the fiscal year (or when the grant expires) are returned to the reserve fund. Interest on the funds is also added each year. The reserve fund is declining and, at the current rate of appropriation requests, will be expended in less than five years. This is not necessarily a problem but what it means is that grant appropriation levels will decrease significantly when reserve funds are no longer available to supplement current assessments. The board is aware of this and has been extremely judicious in making grants. At this time, and subject to audit, it appears the board will have approximately $125,000 in remaining available grant funds at year-end. These funds, in addition to any unspent funds by grantees, will revert back to the reserve.

MacInnes reiterated that the policies of the board are driven by the need to make wise investments on behalf of residential ratepayers today and also preserve funds for future opportunities. That is why they monitor activities so closely and why they try to make decisions as close to the case filing as possible or award partial funding to allow grantees to move forward and determine the best opportunities. If the issues have merit and more resources are needed, grantees are encouraged to return to the board with evidence to support additional funding.

CARE

Isely moved, second by Dinkgrave, and motion carried to approve a 2014 UCRF Grant for CARE in the total amount of $55,000 for intervention in the PSCR Plan cases for Alpena Power, I&M Power, Northern States Power (Integrys Energy), Wisconsin Electric Power d/b/a WE Energies, Wisconsin Public Service Corp, and Upper Peninsula Power. The board takes no action on CARE requests for PSCR reconciliation cases at this time.

Isely moved, support by Haroutunian, and motion carried to approve a 2014 UCRF Grant for CARE in the total amount of $60,000 plus $7,000 additional administrative expense for intervention in federal administrative and MISO proceedings, subject to the following conditions: Additional administrative expenses in the total amount of $7,000 are approved for travel related expenses to MISO meetings and UCPB meetings only. Travel expenses to third party meetings are not approved.

MacInnes thanked Liskey for their work on the MISO process. The board still wants to meter funds but CARE is encouraged to work with the board on funding if needed.

MEC

Isely moved, second by Dinkgrave, and motion carried to approve 2014 UCRF Grant for MEC in the total amount of $90,000 for intervention in the PSCR Plan Cases for Consumers Energy and DTE Energy. The board takes no action on MEC request for PSCR Reconciliation of Renewable Energy Reconciliation cases at this time.

IEI

Isely moved, second by Haroutunian, and motion carried to approve a 2014 UCRF Grant for IEI in the total amount of $90,000 for intervention in the PSCR Plan cases for Consumers Energy, DTE Energy and IM Power, subject to the following conditions: Hourly rates for counsel and experts paid from this grant shall not exceed $ 180; administrative expenses paid from this grant shall not exceed 1%; approval of this grant is conditioned on the grantee achieving standing in the case; coordination with other UCRF grantees and attorney general is required to assure no duplicity that is not considered productive and beneficial supplementation of effort for residential customers. The board takes no action on IEI requests for GCR plan cases at this time.

MacInnes welcomed IEI as a new grantee. He further commented that the board will monitor the decisions of the MPSC on standing and will also receive additional input from the AG with regard to eligibility. However, the board looks forward to new ideas, new thinking that may benefit residential ratepayers.

GLREA

Isely moved, second by Dinkgrave, and motion carried to approve a 2014 UCRF Grant for GLREA in the total amount of $ 62,620 for intervention in the PSCR Plan Cases for Consumers Energy and DTE Energy, subject to the following conditions: Approval of this grant is conditioned on the grantee achieving standing in the case; coordination with other UCRF grantees and attorney general is required to assure no duplicity that is not considered productive and beneficial supplementation of effort for residential customers.

MacInnes welcomed GLREA as a new grantee and again stated that the board will monitor activities.

He reminded grantees that they were to submit final budget sheets to LARA reflecting the cases, amount and conditions approved. Grantees may reallocate funds in individual case budgets based on their priorities and strategies.

II. (d) Appointment of Vice Chair

Haroutunian moved, second by Dinkgrave and motion carried to re-appoint Paul Isely as Vice Chairman of the UCPB for a one-year term through August 2014.

III. Public Comment

Ed Haroutunian commented that as a member of the public, it is important to note that the board in terms of deliberations and conclusions has been very sound and reasoned.

Bzdok noted that in their update last meeting on renewable energy cases, that reported that there were several items for which there was potential for costs to come in lower than utility projections. One of those items was related to a potential change in personal property taxation law. Based on expert legal opinion, MEC does not expect changes in those laws will impact utility projections.

IV. Next meeting – The next meeting of the board is scheduled Monday, ~~October 7~~ October 14, 2013, 11:00 a.m.

V. Adjournment – The meeting was adjourned at 3:00 p.m.

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

Transcript available.