



2018 Annual Report

March 4, 2019

Sally A. Talberg, Chairman
Norman J. Saari, Commissioner
Daniel C. Scripps, Commissioner

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Who We Are

The Michigan Public Service Commission (MPSC or Commission) is the state regulatory body charged with protecting the public by ensuring safe, reliable, accessible energy and telecommunications services at reasonable rates for Michigan residents. The Commission regulates the rates and services of investor-owned natural gas and electric utilities, authorizes energy infrastructure proposals, implements state law governing competition and other aspects of the energy and telecommunications industries, and monitors the safety of inter- and intra-state natural gas pipelines.

The Commission is a three-member body with commissioners appointed by the Governor for staggered, six-year terms. The Commission has a professional staff of approximately 175 individuals with expertise in engineering, accounting, law, economics, and other fields.

Section 5a of Public Act 3 of 1939, as amended, MCL 460.5a, requires the Michigan Public Service Commission to file an annual report with the Governor and the Legislature on or before the first Monday of March each year.

Commission Members



Commissioner Sally A. Talberg was initially appointed by Governor Rick Snyder to the Michigan Public Service Commission on July 3, 2013 and was appointed chairman on January 4, 2016. Her term ends on July 2, 2021. Chairman Talberg currently serves on the board of directors of the Organization of MISO States. Also, through her involvement with the National Association of Regulatory Utility Commissioners, she serves on the Committee on Critical Infrastructure, Committee on Telecommunications, and the Federal-State Joint Boards on Jurisdictional Separations and Universal Service. In 2018, she became a member of the U.S. Department of Energy's (DOE) State Energy Advisory Board, a federal advisory committee that provides input on the activities of the DOE's Office of Energy Efficiency and Renewable Energy.

Chairman Talberg holds a Bachelor of Science degree in Environmental and Natural Resources Policy Studies from Michigan State University and a master's degree in Public Affairs from the Lyndon B. Johnson School of Public Affairs, University of Texas-Austin.

Norman J. Saari was appointed to the Michigan Public Service Commission by Governor Rick Snyder for a term beginning on August 2, 2015. His term ends on July 2, 2019. Commissioner Saari is a member of the National Association of Regulatory Utility Commissioners (NARUC) and serves on its Committee on Natural Gas, Chairs the Subcommittee on Pipeline Safety, and is a member of the Washington Action Program. Commissioner Saari also serves as the board president of the Mid-America Regulatory



Conference. In 2018, he became a member of the NARUC-DOE Natural Gas Infrastructure Modernization Partnership program.

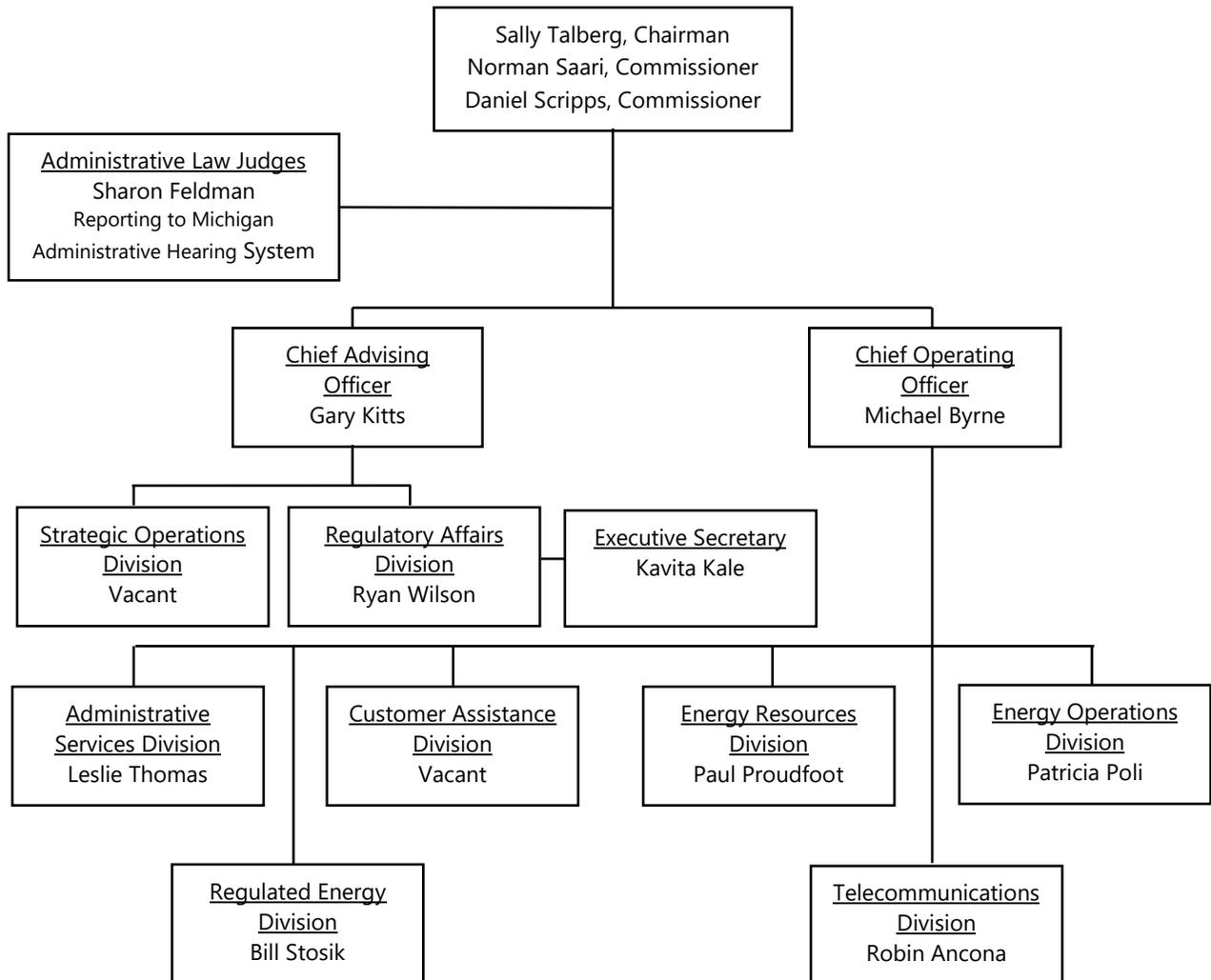
Commissioner Saari earned a bachelor's degree in journalism from Michigan State University and served as a public information officer in the Michigan National Guard.



Daniel C. Scripps was appointed by Governor Gretchen Whitmer to the Michigan Public Service Commission on February 25, 2019. His term ends on July 2, 2023. Commissioner Scripps is a member of the National Association of Regulatory Utility Commissioners and serves on the Committee on Electricity as well as the Committee on International Relations. He serves on the Board of Directors of the Organization of PJM States (OPSI).

Commissioner Scripps is a graduate of Alma College and a 2005 honors graduate of the University of Michigan Law School.

Organizational Structure



Mission, Vision, Goals, and Priorities

Mission

Protect the public by ensuring safe, reliable, and accessible energy and telecommunications services at reasonable rates for Michigan's residents.

Vision

We will be a best-in-class commission by focusing on the public we serve and making well-informed decisions at every level of the organization.

Goals

Establish fair and reasonable rates
Administer fair terms and conditions of service for customers
Assure adequate and reliable supply of energy and telecommunications services
Assure the security of critical infrastructure
Promote Michigan's economic growth and enhance the quality of life of its communities
Support adoption of advanced technologies
Provide customers with the opportunity to choose alternative providers
Provide regulatory oversight in a prudent and efficient manner
Maintain open communication to external stakeholders, customers, and the general public

Priorities

Infrastructure Modernization
Internal and External Communications
Process Improvement
Attraction and Retention of Workforce
Fair, Transparent, and Effective Regulatory Processes

Strategic Initiatives

Five-Year Electric Distribution Planning
High-Risk Natural Gas Pipeline Replacement Programs and Gas Safety
Integrated Resource Planning and Resource Adequacy

MPSC Impact on Michiganders

379,000
LIFELINE CUSTOMERS IN MICHIGAN



11,562

Customers assisted with utility and telecommunications issues in 2018



318%

Increase in natural gas pipeline replacement by rate-regulated utilities

2011: 79 miles annually
2018: 330 miles



LOWER CORPORATE INCOME TAXES HAVE RESULTED IN

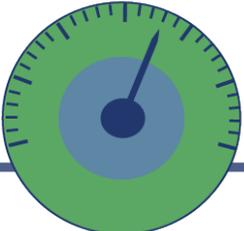
\$379.5 MILLION

OF ANNUAL UTILITY RATE REDUCTION FOR MICHIGAN CUSTOMERS AND

\$233.2 MILLION

IN ADDITIONAL BILL CREDITS



 **Michigan Energy Assistance Program** provided energy assistance funding for 94,445 low-income households during the 2017/18 heating season

MORE DIVERSE, CLEANER ENERGY

Since 2009, dependence on coal to meet Michigan's energy needs has decreased from 73% to 39%



 **ENERGY WASTE REDUCTION**

Since 2009, utility-funded efficiency programs have helped Michigan homes and businesses save over 10 million MWh of electricity & over 35 million Mcf, equaling the annual amount of electricity used by almost 1 million homes and the annual amount of natural gas used by over 400,000 homes

MPSC Partnerships

In 2018, our partnerships with other state departments and programs included the following:

Partners	Issue(s)
Michigan Agency for Energy	Cyber and energy security
Michigan Consortium of Advanced Networks	Roadmap for high-speed, secure, reliable, affordable broadband
Michigan Department of Environmental Quality	Integrated resource planning, long-term reliability
Michigan Department of Health & Human Services	Low income energy self-sufficiency
Michigan Infrastructure Council	Statewide asset inventory and infrastructure planning
Michigan State Police	Data access, privacy and energy emergencies

Media and Public Information

The MPSC values openness and transparency in its interactions with the public and the media. In 2018, the Commission expanded its outreach by establishing a presence on social media.



@MichiganPSC was launched in April



MPSC channel was set up in November

Since its debut on Twitter in April 2018, 282 Tweets have been posted for an average of 32 per month, or more than one a day. As of January 2019, the account had more than 1,000 followers. During 2018, the Commission began livestreaming its meetings, which are available on the MPSC's YouTube channel - click [here](#) to access.

The MPSC's website - <https://www.michigan.gov/mpsc> - is regularly updated and is accessible to the public and other stakeholders. The Commission continued to publish issue briefs to explain important Commission decisions or issues for media, legislators, and stakeholders. For more information, click [here](#). Other key activities included:

- Issued 32 news releases covering 180 Commission orders at its meetings
- Issued 15 news releases relating to other Commission programs and activities
- Provided information and assistance through 259 media contacts
- Facilitated 26 public meetings and stakeholder forums

Additionally, the new E-Dockets system - <https://mi-psc.force.com/s/> - has had an average of over 200,000 unique users each month since its launch on January 5, 2018.

Accomplishments

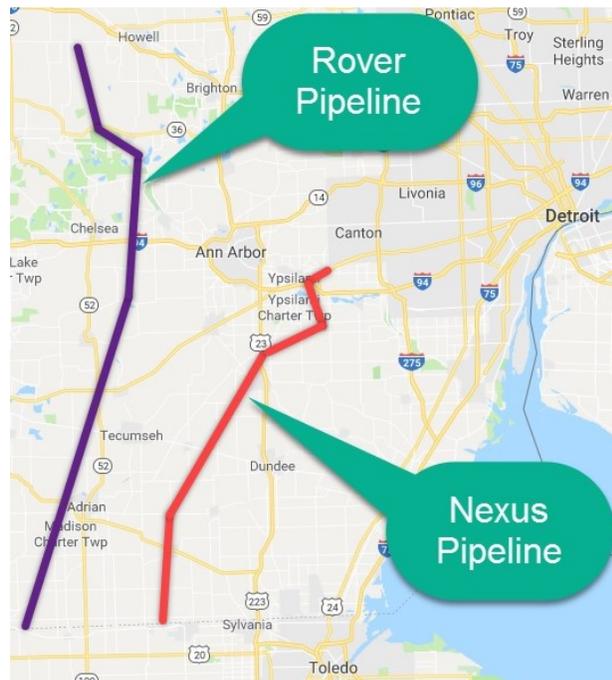
During 2018, the Commission continued its critical role in regulation of the electric, natural gas, and telecommunications industries. The Commission handled hundreds of cases involving rate and policy determinations resulting in the approval and issuance of 656 orders and minute actions. The following outlines major accomplishments and projects for the year:

Public Safety

Natural Gas Pipeline Safety

Safety activities of the state's natural gas pipeline infrastructure included the following:

- Conducted 959 inspections of regulated natural gas facilities including Consumers Energy Company's Saginaw Trail Pipeline and the Marquette Branch Line Expansion of Northern Natural Gas.
- Conducted an integrated inspection with the Pipeline and Hazardous Materials Safety Administration (PHMSA) of over 1,200 miles of Great Lakes Gas Transmission pipeline.
- Inspected the construction of two new interstate natural gas transmission pipelines, Nexus and Rover, in southeast Michigan, pictured on the right, that went into service during 2018 and were authorized by the Federal Energy Regulatory Commission. The pipelines increase market access to natural gas from the Utica-Marcellus shale-producing region.
- Identified 384 violations of the Michigan Gas Safety Standards and levied \$291,500 in civil penalties.
- Investigated 14 natural gas incidents involving any of the following: fatality, injury, property damage of \$50,000 or more, and/or unintentional gas loss of three million cubic feet or more.
- Authorized and monitored the replacement of over 275 miles of gas distribution pipelines made of cast iron, bare steel or other at-risk materials and nearly 16,000 meters inside homes through accelerated infrastructure replacement programs of Michigan gas utilities (DTE Gas, Consumers Energy, SEMCO, and Michigan Gas Utilities).
- Promulgated updated rules for gas safety standards to align with federal requirements and regulatory best practices (discussed further in the rulemakings section of this report).



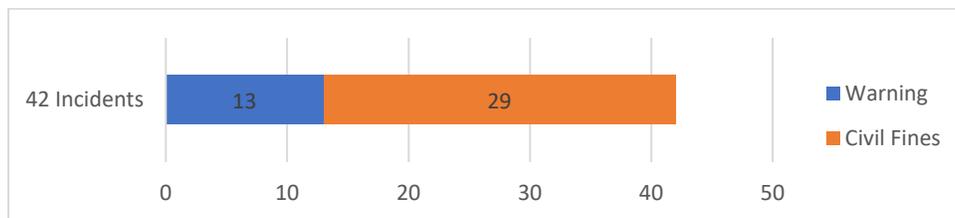
MISS DIG Oversight

The leading cause of damage to underground utility infrastructure is from third parties such as excavators. Hitting natural gas or electrical infrastructure during excavation or other digging poses significant safety risks. To prevent such damage, the MPSC is responsible for the statewide administration and enforcement of the MISS DIG Underground Facility Damage Prevention and Safety Act (PA 174 of 2013) including:



- investigating facility damages and complaints involving potential violations of the Act
- maintaining information on damaged facilities
- making damage data publicly available

Act 174 provides civil and criminal penalties for violation, including a general civil enforcement process and a specific process for local governments, which are also administered by the MPSC. During 2018, there were 42 incidents reported to the MPSC. The investigations resulted in the issuance of warning letters or issuance of enforcement letters with a civil fine assessment to both excavators and operators.



The MPSC also supported MISS DIG and other public education efforts, partnered with utilities, state agencies, and local partners to reinforce the important safety message to “call 8-1-1 before you dig.” MISS DIG is an independent organization that coordinates such calls and the marking of infrastructure assets.

Electrical Safety and Shut-Off Investigations

Throughout 2018, the Commission engaged in three separate investigations addressing safety issues associated with DTE Electric’s electric distribution system and operational practices:

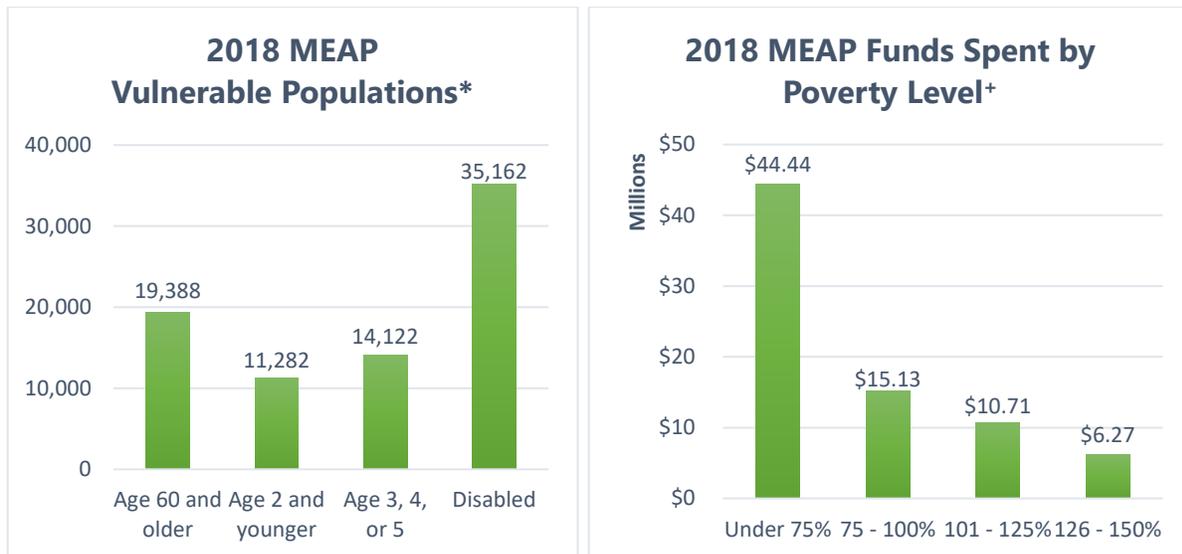
1. In Case No. U-18484, the Commission directed DTE Electric to institute new procedures for coordinating with the City of Detroit on “wire down” calls and to develop a long-term approach to mitigate safety hazards associated with Detroit Public Lighting Department’s out-of-service arc wire coming into contact with DTE Electric’s electric system.
2. In Case No. U-20169, the Commission investigated DTE Electric’s storm response following wind and ice-related power outages and a fatality caused by a downed electrical wire. DTE Electric and MPSC staff examined tree trimming, response to wire down events, incident reporting, and increased inspections to improve safe and reliable electric service. Issues were resolved through a settlement agreement approved by the Commission in early 2019.

- In Case No. U-20084, the Commission initiated an enforcement (“show cause”) proceeding due to issues with improper customer disconnections associated with DTE Energy’s implementation of a new customer billing system. A settlement agreement among the parties was approved by the Commission and addressed safeguards and improved procedures addressing service disconnection, meter reading estimates, and disabling transmitting meters for customers who opt out of having Advanced Metering Infrastructure (AMI) or smart meters. The utility was also assessed a fine for billing rule violations.

Consumer Protection and Customer Assistance

Michigan Energy Assistance Program (MEAP) Grants

MEAP grants provide energy assistance services that enable eligible low-income participants to become or move toward becoming self-sufficient in paying their utility bills.



*Households may fall into more than one category and not all households fall into one of these categories

⁺Totals do not include administrative or program funds

Highlights include:

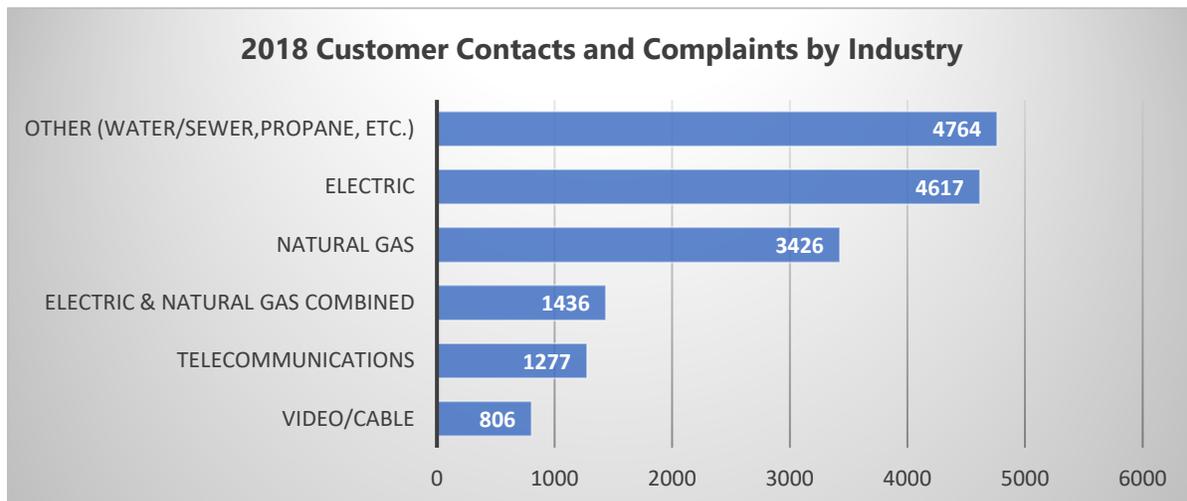
- Approximately \$90 million in grants awarded to 10 grantees across the state serving 94,445 individual low-income households
- Commission adopted a funding factor of 93 cents per meter per month for all Michigan electric utilities opting to participate in the Low-Income Energy Assistance to fund the MEAP (additional amounts were available from federal funding during 2018 heating season)
- Aligned eligibility criteria with federal State Emergency Relief (SER) criteria to streamline administrative costs and improve customer service

Lifeline Eligibility for Telecommunications

The Lifeline program provides a discount for phone or broadband service for qualifying low-income customers. Following changes in the eligibility criteria at the federal level, the MPSC has been working with Universal Service Administrative Company (USAC) on the creation of the national Lifeline eligibility database for Michigan. In December 2018, the Federal Communications Commission granted a waiver extension until June 2019 for Michigan as the MPSC continues to work with USAC on the database. According to USAC, there are currently approximately 379,000 wireline and wireless Lifeline customers in Michigan.

Customer Support and Complaint Resolution

The MPSC provides direct assistance to Michigan residents and businesses having problems with utility bills or service by operating a call center and handling customer complaints. In 2018, a total of 16,326 customers contacted the Commission with a complaint or inquiry. 11,562 customers were assisted with utility and telecommunication issues. Common complaints and concerns include outages/interruptions, high bills, cancellation of contract, and repair problems.



Commission staff also coordinated 33 formal complaint cases for customers who were not satisfied with the resolution of their complaint at the informal level. Following a high number of customer inquiries and complaints regarding high utility bills early in 2018, staff worked with the utilities to change the number of days in a billing cycle so customers' bills do not contain additional days during the heating season when bills are already higher due to colder temperatures.

Telecom Provider Disputes/Video Franchise Mediations

During 2018, the MPSC assisted in resolving several informal disputes between telecommunication providers which avoided the need for contested case proceedings.

In addition, pursuant to Section 10 of the Uniform Video Services Local Franchise Act, MPSC staff conducted one informal mediation at the request of a local franchise entity (municipality).

If parties are not satisfied with the outcome of the informal mediation, they may choose to file a formal complaint pursuant to Section 10 of the Act. No complaints were filed.

Customer Resources

The MPSC’s natural gas price comparison website - www.michigan.gov/compareMiGas - helps customers make informed decisions when choosing an alternative gas supplier (AGS). The website includes the prices currently charged by all AGSs actively marketing or enrolling customers in Michigan, and the basic terms and conditions of their offers. As of December 2018, there were 366,382 customers statewide participating in the Gas Customer Choice Program.



MPSC’s Natural Gas Price Comparison Website

To help educate customers and address concerns by AGSs, the Commission also ordered Consumers Energy to change information on its utility bills for customers who participate in the natural gas customer choice program. Consumers Energy must include a link to the Commission’s gas choice website and provide the phone number of a customer’s AGS.

Just and Reasonable Rates

Significant Rate Case Workload

Rate cases are a major undertaking involving MPSC staff audits of financial and operational information, prudence review of capital investments and operating expenses, allocation of costs and the design of rates charged to customers, and other issues that are often highly contested. In 2018, the Commission handled nine electric and natural gas rate cases in various stages of the rate case process throughout the year. Rate cases must be conducted under an expedited 10-month schedule.

The Commission issued final orders in three electric rate cases involving Consumers Energy, Indiana Michigan Power, and DTE Electric. The Commission issued orders in two gas rate cases involving the two biggest gas utilities in Michigan: Consumers Energy and DTE Gas.

The Commission approved \$199.6 million in rate increases in 2018, \$386.5 million less than requested by the utilities. The primary driver for rate case increases has been increased infrastructure investments to improve reliability and address aging infrastructure. On average, the Commission approved 34% of a utility’s proposed rate increase.

Ratepayer Savings	
Utility Rate Increase Requests	\$586.1 million
MPSC Approved Increases	\$199.6 million
Disallowed Costs	\$386.5 million

In 2018, four new applications for rate increases – three electric and one gas - were received by the Commission.

Millions of Dollars Returned to Customers from Federal Tax Savings

Customers of 10 rate-regulated utilities in Michigan have seen their monthly bills decrease following expeditious action by the Commission. After the federal Tax Cuts and Jobs Act (TCJA) went into effect in January 2018, lowering the corporate tax rate from 35% to 21%, the Commission required 13 utilities to immediately record amounts on January 1, 2018, to ensure the full amount of savings was returned to Michigan utility customers. Proceedings were held to calculate the corporate tax savings resulting from the TCJA and amounts passed on to customers. It was subsequently determined that there was no impact on three of the utilities under the order.¹

The Commission established a three-step process to guide utilities:

Step 1 - Credit A considers how much utility rates should be reduced on a going-forward basis to reflect the lower tax rate (the largest share of savings).

Step 2 - Credit B covers refunds for the period from January 1 to when the Credit A refunds began to appear on bills.

Step 3 - Calculation C accounts for long-term savings utilities would pass on to customers associated with deferred tax treatment.

Ratepayer Savings
Credit A \$379.5 million
Credit B \$233.2 million
Calculation C In progress

The amounts individual utilities returned to customers are shown in the table below:

Utility	Credit A	Credit B
Alpena Power Company	\$506,888	\$216,233
Consumers Energy Company - Electric	\$112,690,000	\$69,956,131
Consumers Energy Company - Gas	\$47,529,000	\$30,034,666
DTE Electric Company	\$156,870,000	\$92,812,177
DTE Gas Company	\$38,200,000	\$24,995,319
Indiana Michigan Power Company	\$8,680,852	\$5,397,707
Michigan Gas Utilities Company	\$2,432,814	\$1,662,921
Northern States Power Company - Electric	\$513,313	\$135,383
Northern States Power Company - Gas	\$76,810	\$52,083
SEMCO Energy Gas Company	\$6,543,601	\$4,734,647
Upper Michigan Energy Resources Company	\$2,005,011	\$959,706
Upper Peninsula Power Company	\$3,324,000	\$1,668,691

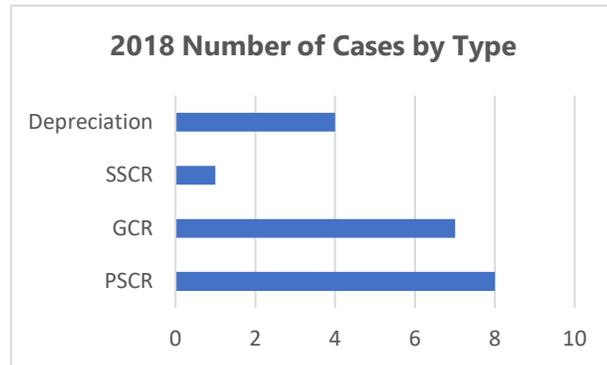
¹ No tax-related adjustments were made for Detroit Thermal, LLC, Presque Isle Electric and Gas Cooperative, and Wisconsin Electric Power Company.

Fuel Cost Recovery Plans, Reconciliations and Depreciation

In the ratemaking process, a portion of the power, gas, and steam supply costs are recovered through a base amount that is included in base rates. The costs that exceed the base amount included are recovered through the following fuel specific surcharges that tend to fluctuate and may vary from month to month:

- Power Supply Cost Recovery (PSCR)
- Gas Cost Recovery (GCR)
- Steam Supply Cost Recovery (SSCR)

Costs are reconciled every year to recover actual fuel and purchased power costs and the cost of transmission service following a prudence review. Billions of dollars of expenses and the utilities' one-year and five-year plans for arranging fuel supplies to serve expected customer demand are reviewed annually.



Depreciation cases evaluate recovery of a utility's plant investment incrementally throughout the service life of the asset so that customers are only charged for utility assets that are used to provide them service. Depreciation cases are typically conducted every five years to ensure the accuracy of plant life expectations and adjust depreciation rates accordingly.

PURPA Avoided Cost Rates

The Commission issued orders related to the continued implementation of the Public Utility Regulatory Policies Act of 1978 (PURPA) for rate-regulated electric providers. Under PURPA, the MPSC sets rates that electric utilities are required to pay small independent renewable power producers based on avoided energy and capacity costs. Final orders establishing avoided costs and tariffs were issued for Alpena Power Company, Consumers Energy Company, Northern States Power Company - Wisconsin, Upper Michigan Energy Resources Corporation, and Upper Peninsula Power Company.

Federal Energy Regulatory Commission (FERC) Advocacy

The Commission remained active before the Federal Energy Regulatory Commission and regional transmission organizations (grid operators regulated by FERC) to monitor federal proceedings and represent the interests of Michigan ratepayers. Highlights include:

- The MPSC intervened in six pipeline and one storage rate reduction filings at FERC to advocate for federal income tax savings to be returned to Michigan natural gas ratepayers. The MPSC also advocated for such customer savings in a FERC proceeding adjusting electric transmission rates.

- The MPSC continued to monitor FERC activity involving both Rover and NEXUS pipeline applications before FERC (pipelines went into service in 2018 and bring natural gas from the Appalachian area into southeast Michigan).
- MPSC staff reviewed plans to replace electric transmission lines connecting the Lower and Upper Peninsulas following an April 2018 anchor strike that damaged three of six electric cables in the Straits of Mackinac, restricting the reliability of electric service in the Eastern Upper Peninsula. ATC Transmission Company was granted approval by Midcontinent Independent System Operator (MISO) to replace the cables subject to any necessary regulatory siting requirements. Commission staff also coordinated with electric providers, MISO, and other stakeholders on generation options to improve reliability, including Cloverland Electric Cooperative's proposal to add 80 MW of generation in the eastern Upper Peninsula.
- MPSC has been active with FERC dockets pertaining to PJM Interconnection's new tariffs and rules redesigning its electric capacity market.

Facility Siting and Authorizations

Certificate of Necessity (CON)

DTE Electric, in Case No. U-18419, requested three certificates of necessity for its proposed 1,100 MW natural gas combined cycle (NGCC) plant. The three CONs include:

1. Power to be supplied as a result of the proposed construction, investment, or purchase is needed,
2. Size, fuel type, and other design characteristics of the existing or proposed facility are the most reasonable and prudent means; and
3. Estimated purchase or capital cost will be recoverable in rates from customers.

To ensure long-term reliability for Michigan residents and businesses with the closure of three coal plants in southeast Michigan in the early 2020s, the MPSC granted DTE Electric's CON applications for the facility authorizing cost recovery up to \$951.8 million. DTE Electric is required to file an annual report in the docket on progress to date by April 2019. The plant is expected to be in service in 2022.

The Commission monitored the construction of two reciprocating internal combustion engine (RICE) electric generation facilities in the Upper Peninsula. The Commission granted a CON in 2017 to Upper Michigan Energy Resource Corporation (UMERC), in Case No. U-18224, for these facilities. UMERC filed an Annual Progress Report in October 2018, noting significant work in progress on all aspects of the project, which will go into service in 2019 and replace energy and capacity from the retiring Presque Isle power plant in Marquette.

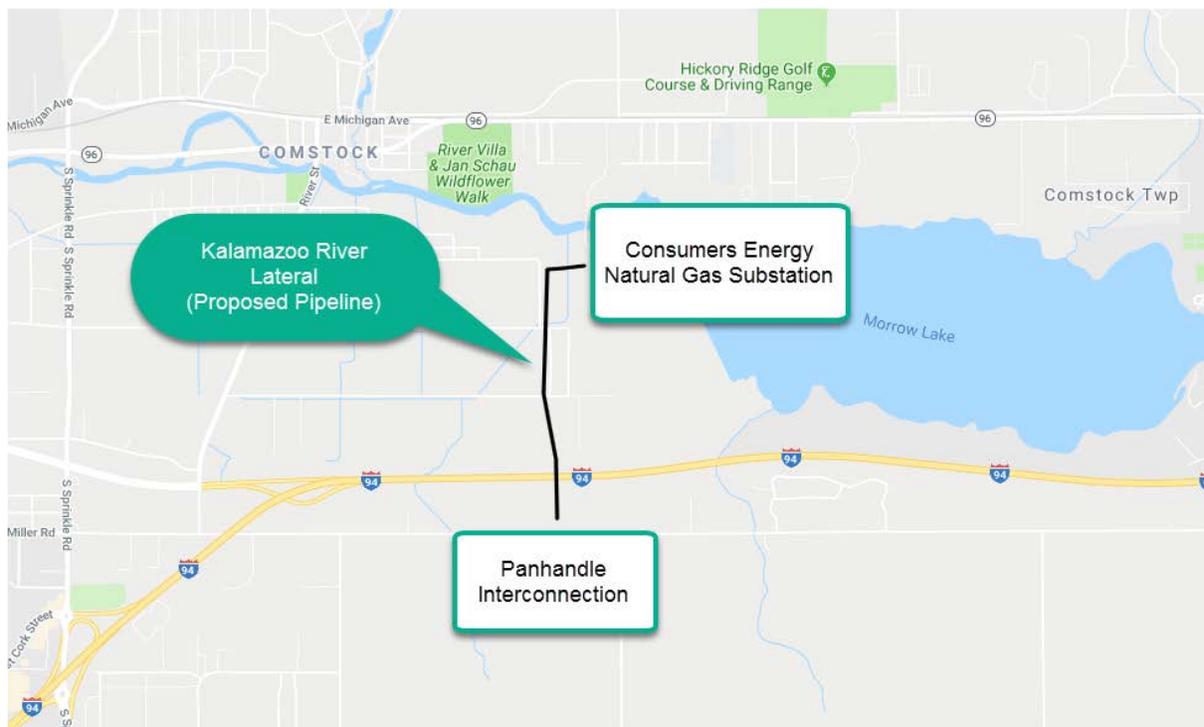


UMERC's RICE units aboard a cargo ship on Lake Superior, summer 2018.

Indiana Michigan Power Company (I&M), in Case No. U-17026, was granted a CON for life cycle management of the Donald C. Cook Nuclear Power Plant and submitted a semi-annual progress report in December 2018. The upgrades increase the plant's capacity and extend the life. Overall, the projects are progressing as scheduled and are expected to be completed in 2022.

Pipeline and Service Area Certification

The Commission has jurisdiction to site intrastate natural gas pipelines through certificates granted under Act 9 of 1929 and oil pipelines under Act 16 of 1929. During 2018, the Commission approved the application of Consumers Energy and CMS Generation Michigan Power LLC to construct and operate the Kalamazoo River natural gas lateral line in Kalamazoo County under Act 9, pictured below. This facility will provide natural gas to the electric generating facility located in Comstock, Michigan.



Commission staff coordinated with the Michigan Agency for Energy and the Pipeline Safety Advisory Board during 2018 on recommendations to improve pipeline siting processes in the state, including the development of guide about the regulatory process and clarifications of notice requirements and decision criteria.

Additionally, following staff review, the Commission approved settlement agreements granting two Natural Gas Certificate of Convenience and Necessity Requests (Act 69 of 1929) for DTE Gas to provide service to a residential customer located in Ash Township, Monroe County and Consumers Energy to provide service to customers located in Lima Township, Washtenaw County.

Reliability

Electric Distribution Planning

Throughout 2017 and 2018, Commission staff worked with DTE Electric, Consumers Energy, Indiana Michigan Power, and stakeholders to develop a long-term electric distribution planning process. The objective was to provide the Commission and interested stakeholders a better opportunity to understand the current state of the utilities' electric distribution infrastructure, the anticipated investment needs and prioritization of investment in the coming years, and how advanced and emerging technologies impact the distribution planning process.

The Commission issued an order in November 2018, in Case No. U-20147, acknowledging the importance of having comprehensive, open, and transparent distribution plans to aid the regulatory process. The order also specified that as the Commission, utilities, and stakeholders engage in the development of the next iteration of plans slated for early 2020, it is important to have discussions around the longer-term vision for the grid architecture and performance expectations.

Integrated Resource Planning

PA 341 of 2016 instituted an integrated resource planning (IRP) process to examine options to meet long-term electricity needs considering reliability, cost, performance, environmental impact, and other considerations. In June 2018, Consumers Energy was the first utility to submit an IRP under the new process. The Company proposed retiring all coal generation by 2040 and reducing carbon emissions by 80% from 2005 levels, retiring Karn Units 1 and 2 by 2023, ramping up demand response programs, conservation voltage reduction, i.e. better controlling voltage to cut energy waste, and adding 5,000 MW of solar energy. A final order is scheduled in the second quarter of 2019. The remainder of investor-owned utilities will submit IRPs during 2019.

Modernization and expansion of facilities

As part of the resource planning process, several utilities are working towards meeting long-term electricity needs through modernization of their facilities, and the expansion of energy waste reduction and demand response programs. Improvements to the Ludington Pumped Storage facility, co-owned by Consumers Energy and DTE Electric, are also underway with a six-year, \$800 million overhaul to upgrade all six turbines at the plant and increasing its capacity by 15%. The project is on track to be completed in 2019.



MPSC staff posing with a new runner assembly at the Ludington facility

Long-Term Resource Adequacy

In 2017, the Commission established state reliability mechanism charges (SRM) and capacity demonstration requirements pursuant to PA 341 to ensure all electric providers have enough capacity to maintain reliability and meet their customers' needs over the long term. In 2017 and 2018, pursuant to the new law, all electricity providers in Michigan, including investor-owned utilities, cooperatives, municipal utilities, and alternative electric suppliers filed documentation demonstrating their electric capacity resources such as ownership of electric generating facilities, capacity contracts, and energy waste reduction or demand response programs to serve their customers for the next four years. Following staff review, the Commission determined in 2018 that electricity providers had enough capacity for planning purposes under the new requirements, obviating the need for customers of alternative electric providers to pay the local utility to arrange capacity on their behalf. In late 2018, the Commission adopted enhancements to the capacity demonstration process resulting from Commission staff discussions with stakeholders. Capacity demonstrations pursuant to the improved process were filed in December 2018 and will continue through February 2019.

Cybersecurity

The Commission adopted a new rule in late 2018 to memorialize the process for reviewing utilities' planning and mitigation efforts to protect against cybersecurity threats and clarify reporting to the state in cybersecurity incidents.

Other Notable Activities

Electric Vehicles Planning and Coordination

During 2018, the Commission continued discussions with stakeholders on regulatory issues affecting electric vehicles (EV) such as rate design, role of the utility, and grid impacts/infrastructure planning through technical conferences under Case No. U-18368. Technical conferences were held in 2017 and 2018.

Consumers Energy and DTE Electric requested funding to implement pilot programs for EV charging in their most recent rate cases. Both programs will evaluate different levels of rebates, rate structures, and customer response to those rate structures, technology innovation, and provide customer education. The Commission approved Consumers Energy's program as part of the rate case settlement agreement filed in late 2018. An order for DTE Electric is expected in May 2019.

Michigan Consortium for Advanced Networks (MCAN)

In January 2018, Executive Order 2018-2 created the Michigan Consortium for Advanced Networks (MCAN), to establish a roadmap to help strengthen statewide broadband access and connectivity. The Consortium was directed to identify gaps in broadband service coverage and capacity, current efforts underway to address connectivity issues, and key strategies and recommendations for the state and private sector to pursue to achieve enhanced connectivity. The MCAN issued the Michigan Broadband Roadmap report in August 2018.

As part of the Commission's ongoing efforts to promote the advancement of broadband in Michigan, the Commission contracted with Connect Michigan to update the broadband maps for Michigan with 2017 data and released those maps in September 2018. The Connect Michigan data and information served as a key resource to the MCAN throughout this process. The following statistics show how broadband has improved in Michigan:

- Fixed, terrestrial home broadband adoption rose from 58.4% in 2015 to 63.9% in 2017, according to the US Census Bureau.
- Household availability of fixed broadband with speeds of at least 25/3 Mbps rose from 90.1% in 2017 to 92.3% in 2018.
- Households with access to at least two internet service providers with a connection of at least 25/3 Mbps rose from 51.6% in 2017 to 55.3% in 2018.

Access Restructuring Fund Adjustment

The Commission continues daily administration of the Intrastate Switched Toll Access Restructuring Mechanism (ARM), taking in monthly contributions from 229 providers and disbursing \$11,684,624.83, to 35 eligible carriers in the fiscal year. Pursuant to the directives in the Michigan Telecommunications Act, the size of the ARM was recalculated in February 2018 (Case No. U-16183), resulting in a new ARM fund of \$9,987,468.39. More information on the ARM and the recalculation can be found in the Annual ARM Report to the Governor and Legislature.

Eligible Telecommunications Carriers (ETC)

The MPSC has been designated by the Federal Communications Commission to handle issues regarding ETC designation and recertification. In 2018, there were a total of six new applications for ETC designation. Of these applications, five involved applications based on financial awards from the Connect America Fund (CAF) phase II. Three of the five CAF II recipients are electric cooperative providers, specifically:

- Midwest Energy & Communications (Case No. U-17861)
- Great Lakes Energy Connections, Inc. (Case No. U-20326)
- Tri-County Electric Cooperative d/b/a HomeWorks Connect (Case No. U-20334)

In addition to the six applications for designation, the MPSC also received and approved one ETC expansion request. In September 2018, the Commission recertified the ETC status of current providers in Case No. U-18490. In total, 60 wireless and wireline providers had their ETC status recertified as Lifeline, High Cost, or both. ETC recertification allows these ETCs to continue to receive federal support.

Rulemakings

In 2018, the Commission approved the following rules for adoption:

Cybersecurity reporting and protections: The Technical Standards for Electric Service (Case Nos. U-18043 and U-18203) will now include provisions for reporting cybersecurity breaches and protecting utility infrastructure. Investor-owned and cooperative utilities must provide the MPSC with annual reports on programs and planning, descriptions of employee training, and notifications upon detection of a cyber incident that results in a loss of service, financial harm, or breach of sensitive business or customer data is detected. For an issue brief on the rules, click [here](#).

Natural gas pipeline safety: Changes to Gas Safety rules (Case No. U-17826) will improve and enhance programs to make Michigan's natural gas infrastructure safer by addressing concerns for farm tap and master meter facilities, establishing guidelines for records retention, and adopting additional reporting requirements. The rules also facilitate Michigan meeting new mandated standards and guidelines that are adopted by the PHMSA.

Code of Conduct: The new Code of Conduct rules (Case No. U-18361) for all utilities and alternative electric suppliers (AESs) are intended to prevent cross-subsidization, preferential treatment, and information sharing between a utility's regulated and unregulated services and programs to avoid restraining trade or competition. The Code of Conduct rules clarify how utilities will be able to offer "value-added programs and services" to customers through an affiliate or third party, under certain conditions pursuant to PA 341 of 2016. For more information on the code of conduct rules, click [here](#).

Customer on-bill financing for improvements: The Consumer Standards and Billing Practices for Electric and Natural Gas Service (Case No. U-20152) will now allow residential utility customers to finance the costs for energy waste reduction projects through their monthly utility bills if their utility offers such a program. Some examples of projects that may qualify for on-bill financing: adding insulation; building upgrades; heating, ventilation, and air conditioning improvements; or installing a renewable energy system.

Telecommunications provisions: In March 2018, the MPSC formally adopted administrative rules (Case No. U-18360) governing the obligations of providers of basic local exchange service that cease to provide the service. These rules address the roles and responsibilities of retail and wholesale providers of basic local exchange service that are involved in a dispute which may result in the disconnection of end user customers of the retail provider as well as the transfer of a customer base from one provider to another.

Additionally, two sets of rules were readopted under the Michigan Telecommunications Act. The Unbundled Network Element and Local Interconnection Services rules (Case No. U-20160) outline how incumbent local exchange carriers provide unbundled network elements and local interconnection services to other providers. The quality standards will be effective April 19,

2019. The Basic Local Exchange Service Customer Migration rules (Case No. U-20161) govern the timely transfer of phone customers from one provider to another. The migration rules will be effective June 17, 2019.

Studies and Reports

In addition to ongoing reports submitted to the Governor and Legislature, the Commission completed specific one-time or new studies and reports during 2018 as follows:

9-1-1 cost category: In March 2018, Public Act 51 (PA 51) was signed into law amending 1986 PA 32 which directed the Commission to commence a proceeding to determine the recurring and nonrecurring cost categories for all Internet Protocol-based (IP-based) 9-1-1 service providers in Michigan. In April 2018, the Commission commenced a proceeding in Case No. U-20146 and in October 2018 issued an order adopting the cost categories for use by the IP-based 9-1-1 service providers seeking reimbursement.

Distributed generation: In February 2018, the Commission staff issued its Report on *The MPSC Staff Study to Develop a Cost of Service-Based Distributed Generation Program Tariff* pursuant to the 2016 energy laws. Following the report, the Commission provided an opportunity for public comment and, after considering the comments, issued its April 2018 order requiring utilities, as part of filing a rate case on or after June 1, 2018, to include the distributed generation tariff resulting from the study.

PURPA: Public Act 341 of 2016 required the Commission to issue a report describing the status of qualifying facilities (QFs) in the state, the current status of power purchase agreements for each QF, and the Commission's efforts to comply with the requirements of PURPA. The Commission's first report to the Governor and Legislature was issued in April 2018.

Performance-based regulation (PBR): In April 2018, the MPSC submitted its PBR report to the Governor and Legislature in compliance with Section 6u of PA 341. A key feature of PBR is providing incentives for desired utility performance and penalties for under-performance. The Commission will continue to evaluate the inclusion of PBR metrics for specific utility investment programs.

Conclusion

The Commission had a productive 2018, working on statutory and operational priorities and ensuring alignment with the state's energy policy and telecommunication goals. As always, the MPSC continues its commitment to work with the Governor and Legislature on energy and telecommunications matters to enhance services and ensure adequate protection of Michigan residents and businesses.