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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
PUBLIC SERVICE COMMISSION

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COMMISSIONER

March 5, 2018

Honorable Rick Snyder
Governor of Michigan

Honorable Members of the Senate
Secretary of the Senate

Honorable Members of the House of Representatives
Clerk of the House of Representatives

The enclosed *2017 Annual Report* is submitted on behalf of the Michigan Public Service Commission (Commission) in accordance with Section 5a of Public Act 3 of 1939, as amended, MCL 460.5a. The report is also available on the Commission's website.

The Commission had a historically productive year in 2017 as it supported initiatives to modernize Michigan's utility infrastructure.

At the end of 2016, the Legislature passed and the Governor signed into law Public Acts 341 and 342 of 2016, comprehensive energy policy legislation. The bills, signed by Governor Rick Snyder on December 21, 2016, updated Michigan laws related to rate case processing, integrated resource planning, electric customer choice, code of conduct, renewable energy, energy waste reduction, distributed generation, and on-bill financing. The laws took effect April 20, 2017. Throughout the remainder of 2017, Staff spent considerable resources working with a wide range of stakeholders to implement these new laws. Of particular note are new resource adequacy requirements, known as the "state reliability mechanism," for utilities and alternative electric suppliers. This discussion was prompted in large part by power plant closures and Michigan's unique hybrid electricity market structure. This mechanism is designed to ensure electricity supplies are available over the long term.

Also in 2017, the Commission worked to implement activities of a three-year strategic plan, addressing statutory and operational priorities, and ensuring alignment with Governor Snyder's energy policy goals focused on reliability, affordability, adaptability, and protecting the environment.

Additionally, the Commission handled an unprecedented number of rate cases and issued nearly 700 orders on energy and telecommunications matters, including the adoption of 60 energy legislation related orders. Of particular note, the Commission:

- Established modeling parameters for new utility long-term integrated resource plans to inform decisions on the most reasonable and prudent options for meeting our future electricity needs in the state.
- Conducted studies on cost-effective potential for demand response and energy waste reduction.

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- Provided guidance on utilities' voluntary green pricing tariffs.
- Expanded clean energy provisions.
- Engaged stakeholders on performance-based ratemaking and on-bill financing.
- Studied "cost of service" alternatives to net metering and launched study groups on revising code of conduct provisions to recognize utilities that are providing "value-added" services, such as financing of solar energy projects.
- Approved a new, natural-gas fired electric generation power plant in Michigan's Upper Peninsula to replace an aging coal plant facing an expensive environmental retrofit and avoid costly electric transmission upgrades.
- Engaged diverse stakeholders to identify and address barriers to electric vehicle infrastructure. Particular focus was on rate design, grid impacts, and regulatory guidance on the role of the regulated utility in the electrification of the transportation sector.
- Provided in-depth scrutiny of billions of dollars in capital investments to upgrade energy infrastructure as part of 11 rate cases.
- Updated "avoided cost" rates utilities pay small independent power producers under the federal law, Public Utility Regulatory Policies Act.
- Engaged in collaborative planning to develop first-ever electric distribution plans using analytics to provide transparency around infrastructure modernization needs and the integration of new technologies. This planning effort provides a roadmap to move utilities from reactive repairs of the aging distribution system to an optimized, modern system that ensures safety, reliability, and cost-effective operations.
- Updated customer protection rules, including provisions for critical care customers, as well as revised customer data privacy and access provisions.
- Participated in state and national efforts to align Michigan's Lifeline program with new federal standards.
- Approved or amended licenses for 5 telephone companies, registered 428 providers that offer telecommunications services in Michigan, commenced a docket to promulgate rules governing the obligations of providers of basic local telephone service that cease to provide the service, approved 60 carriers as eligible telecommunications carriers to apply for federal Universal Service Funding, and participated in state and national efforts to align Michigan's Lifeline program with new federal standards.
- Supported ConnectMichigan to advance broadband and telecommunications mapping.
- Received national recognition for our leadership in the gas safety program, and expanded Michigan's safety program for natural gas pipeline inspections and accelerated replacement of high-risk gas mains.
- Prepared for the launch of a new E-Dockets platform to replace a 20-year old system for filing, accessing, and managing files in thousands of MPSC cases.
- Took swift action at the end of the year to ensure the full benefits of federal tax reform will flow back to utility customers.

The Commission was also involved in the efforts of Governor Snyder's 21st Century Infrastructure Commission and provided guidance on the implementation of the asset management pilot.

Finally, the Commission appreciates the Legislature's support in providing additional resources during 2017 to address electric reliability and infrastructure issues, compliance with federal pipeline safety standards, and implementation of Public Acts 341 and 342 of 2016.

The Commission looks forward to a busy and productive 2018, especially when it comes to the continued implementation of the provisions of Public Acts 341 and 342. As always, we stand ready to work with the Legislature on energy and telecommunications matters to enhance services and ensure adequate protection of Michigan residents and businesses.

Very truly yours,

Sally A. Talberg
Chairman

Norman J. Saari
Commissioner

Rachael A. Eubanks
Commissioner

MICHIGAN PUBLIC SERVICE COMMISSION

2017 ANNUAL REPORT

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

March 5, 2018

Department of Licensing and Regulatory Affairs



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Sally A. Talberg, Chairman

Sally A. Talberg was appointed by Governor Rick Snyder to the Michigan Public Service Commission on July 3, 2013, and was appointed chairman on January 4, 2016. The Governor appointed her to a new term on March 17, 2017, which ends July 2, 2021.

Prior to her appointment, Chairman Talberg worked in the public and private sectors with a focus on energy policy and utility regulation. Most recently, she served as a senior consultant at Public Sector Consultants focusing on energy policy issues. During her tenure at Public Sector Consultants, she also helped establish Michigan Saves, a financing organization to support energy waste reduction. Chairman Talberg previously served as an analyst at the Michigan Public Service Commission, managed enforcement and contested cases at the Michigan Department of Environmental Quality, and advised commissioners at the Public Utility Commission of Texas.

Chairman Talberg serves on the board of the Organization of MISO States. Through her involvement with the National Association of Regulatory Utility Commissioners, she serves on the Committee on Critical Infrastructure and the Committee on Telecommunications, which also includes the Federal-State Joint Boards on Jurisdictional Separations, and on Universal Service. In 2017, she became a member of the U.S. Department of Energy's State Energy Advisory Board (STEAB), which is a federal advisory committee that provides input primarily on the activities of the DOE's Office of Energy Efficiency and Renewable Energy.

Chairman Talberg holds a bachelor's 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, Commissioner

Norman J. Saari was appointed by Governor Rick Snyder to the Michigan Public Service Commission for a term beginning on August 2, 2015. The Governor appointed him to a new term on March 17, 2017, which ends July 2, 2019.

Prior to his appointment, Commissioner Saari served as an executive director of governmental affairs for 20 years at the Consumers Energy Company, a position from which he retired in 2006. Commissioner Saari was most recently Chief of Staff for the Michigan House of Representatives under former Speaker Kevin Cotter as well as under former Speaker Jase Bolger. He also served as Governor Snyder's manager of appointments and Chief of Staff for former State Senator Jason Allen.

Commissioner Saari is a member of the National Association of Regulatory Utility Commissioners and serves on its Committee on Natural Gas, Subcommittee on Nuclear Issues-Waste Disposal, and the Washington Action Program. In 2017 he became chairman of the Subcommittee on Pipeline Safety. Additionally, Commissioner Saari is the board treasurer of the Mid-America Regulatory Conference. He was appointed in 2016 to serve on the Pipeline and Hazardous Materials Safety Administration's Liquid Pipeline Advisory Committee, which will make recommendations to help PHMSA develop safety requirements.

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.



Rachael A. Eubanks, Commissioner

Rachael A. Eubanks was appointed by Governor Rick Snyder to the Michigan Public Service Commission, for a term beginning August 1, 2016. The Governor appointed her to a new term on March 17, 2017, which ends July 2, 2023.

Prior to her appointment, Commissioner Eubanks worked in public finance for 13 years, most recently as a director at Robert W. Baird & Co. Inc. During her 10-year tenure at Baird, she completed over \$22 billion in bond financings, primarily for the State of Michigan, Michigan State Building Authority, Michigan Finance Authority and other state agencies. She served as financial advisor on a \$185 million issuance for the Public Lighting Authority of Detroit that financed a complete overhaul of the city's street lighting system amidst its bankruptcy proceedings.

She is a member of the National Association of Regulatory Utility Commissioners (NARUC) and serves on the Energy Resources and the Environment Committee, which serves as a venue for State regulators to discuss ways to provide utility customers with environmentally sustainable and affordable energy services, particularly focusing on energy efficiency, environmental protection, renewable and distributed resources, consumers protection, low-income weatherization and assistance, and public interest research and development. In 2017, she was appointed as Co-Vice Chair to NARUC's Subcommittee on Supplier and Workforce Diversity, which is focused on promoting opportunities for women, minority and service-disabled veteran-owned businesses in utility supply markets.

Commissioner Eubanks represents Michigan on the board of the Organization of PJM States. She was elected to the Executive Committee as Secretary on October 5, 2017 for a one-year term. She also serves on its Personnel Committee.

She holds a bachelor's degree in economics from the University of Michigan.

Introduction

Section 5a of Public Act 3 of 1939, as amended, MCL 460.5a, requires the Michigan Public Service Commission (MPSC or Commission) to file an annual report with the Governor and the Legislature on or before the first Monday of March each year. The report is a summary of Commission activities and may include rules, opinions, and orders promulgated or entered by the Commission during the calendar year covered by the report, as well as any other noteworthy information that the Commission deems appropriate.

Mission and Goals

Michigan's energy and telecommunications sectors are faced with growing challenges, such as natural gas pipeline safety, aging infrastructure, integration of new technologies, and the transition from landline telephones. In February 2017, the MPSC adopted a strategic plan after engaging with its staff to identify strategic priorities, objectives, and action steps to ensure alignment with Governor Rick Snyder's energy policy focused on reliability, affordability, adaptability, and protecting the environment. The strategic planning efforts also resulted in the revision of our mission and goals. MPSC's revised mission is: to protect the public by ensuring safe, reliable, and accessible energy and telecommunications services at reasonable rates for Michigan's residents.

MPSC's organizational goals, which guide efforts to meet its mission, are to:

- Establish fair and reasonable rates for regulated services and adopt and administer fair terms and conditions of service for Michigan's utility customers consistent with state and federal law and regulations.
- Assure adequate and reliable supplies of regulated services to all Michigan customers, and the safe and efficient production, distribution, and use of the state's energy and telecommunications services.
- Assure the security of Michigan's critical infrastructure by promoting physical and cyber security with regulated utilities.

- Support adoption of advanced technologies like broadband telecommunications, efficient renewable energy resources, and energy waste reduction innovations.
- Provide customers with the opportunity to choose alternative electric, natural gas, and telecommunications providers.
- Provide regulatory oversight in a prudent and efficient manner while implementing legislative and constitutional requirements.
- Maintain open communication with external stakeholders, customers, and the general public.

During 2017, the MPSC engaged in the implementation of the newly adopted strategic plan. The MPSC commissioners and staff identified the following strategic priorities, objectives, and action steps for completion over the next three years:

Strategic Priority 1: Ensure that Michigan’s energy and telecommunications infrastructure is modernized and maintained in a manner that aligns with the MPSC’s mission of ensuring safe, reliable, accessible service at reasonable rates.

Strategic Priority 2: Establish a culture of internal communication and support to aid decision making, create a united and consistent presence internally and externally, and reduce barriers that prevent employees from doing their best work.

Strategic Priority 3: Effectively communicate to external stakeholders the work we do, and how and why we do it.

Strategic Priority 4: Improve internal processes and information management systems to effectively and efficiently conduct work, including improving information management and retrieval within technology systems.

Strategic Priority 5: Attract and retain a knowledgeable and engaged workforce that is empowered to lead in all aspects of their jobs and provide timely, high-quality work products.

Strategic Priority 6: Ensure MPSC regulatory processes are fair, transparent, and effective and lead to well-supported decisions that are adaptive to changing industry trends.

Strategic Priority 7: Establish fair, inclusive, and effective “case building” (i.e., identifying, analyzing and presenting issues in proceedings before the MPSC).

Collaboration with Michigan Agency for Energy

The year 2017 marked the third year of the MPSC being housed as an autonomous agency within the Michigan Agency for Energy (MAE) pursuant to Executive Order No. 2015-10. The MPSC and MAE continued to work together on several important issues during 2017, including:

- In 2016, MPSC and MAE staff worked together on technical modeling related to electric energy and capacity resources and compliance with the federal carbon rule, as well as evaluating Michigan’s resource adequacy situation if key power plants were offline. The results of these studies were posted on the Agency’s website. In 2017, additional modeling related to increased interconnection between the Upper and Lower Peninsulas of Michigan, was conducted by the Midcontinent Independent System Operator (MISO) at the request of Michigan officials.
- Continued collaboration between the MPSC and MAE resulted in removal of extra charges imposed by the federal government related to electric reliability for ratepayers in Michigan’s Upper Peninsula. Following MPSC approval in late 2017, the local electric utility moved forward with plans to build new, natural-gas fired electric generation in Michigan’s Upper Peninsula to replace an aging coal plant facing an expensive environmental retrofit and avoid costly electric transmission upgrades.
- MPSC staff collaborated with MAE and stakeholders in the implementation of Public Acts 341 and 342 of 2016, comprehensive energy policy legislation. The bills, signed by Governor Snyder on December 21, 2016, updated Michigan laws related to rate case processing, integrated resource planning (IRP), electric choice, code of conduct,

renewable energy, energy waste reduction, distributed generation, and on-bill financing. The new laws took effect April 20, 2017. The establishment of the new IRP framework was a major undertaking that was supported by MPSC, MAE, and the Michigan Department of Environmental Quality (DEQ). Eleven stakeholder meetings were held to address technical issues and the state agencies hosted three public hearings in Livonia, Grand Rapids, and Marquette to gather input on the IRP framework, which will be used to identify and evaluate options for meeting electricity needs.

- As a follow-up to the work that was done in 2016 by Governor Snyder's 21st Century Infrastructure Commission, Governor Snyder issued an executive directive on April 3rd, 2017 that ordered the creation of an asset management pilot and the development of an advisory board to help provide guidance on implementation of the pilot. Both the MPSC and MAE served on the advisory board and have been active participants. Staff from the Agency and Commission helped to support the Infrastructure Commission's activities by addressing data needs and mapping capabilities. The pilot is currently on-going.
- Both the MPSC and MAE were involved in the efforts of Governor Snyder's Pipeline Safety Advisory Board. Commission Chairman Sally Talberg and Agency Executive Director Valerie Brader were both members of the Board, and staff from the Agency and Commission provided technical analysis support reviewing studies and other developments, in coordination with the Michigan Agency for Energy, Department of Environmental Quality, Department of Natural Resources, and Attorney General's office.
- Both the MPSC and MAE staff attended training to support emergency operations in coordination with the Department of State Police.
- Early in the year, the MPSC issued an order in case U-18368 to collaboratively consider issues related to both the deployment of plug-in electric vehicle charging facilities and to examine issues germane to the use of compressed natural gas as a motor vehicle transportation fuel in Michigan in a Commission-sponsored technical conference. MPSC and MAE hosted this technical conference in August 2017. Top experts from the auto industry, alternative fuel vehicle market, and major utilities participated in discussions

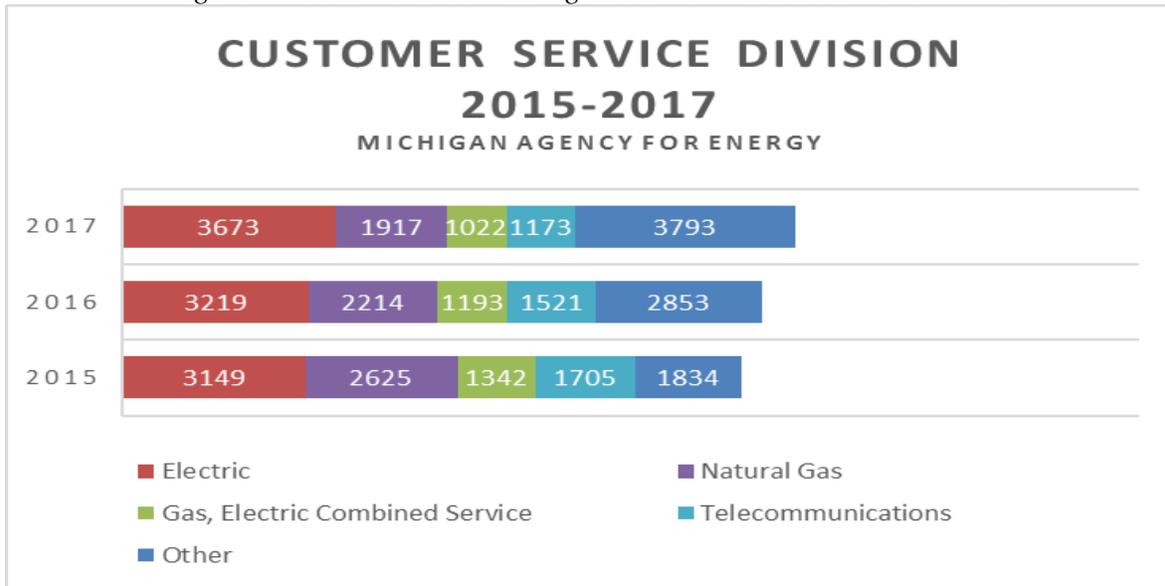
about electric vehicle and natural gas vehicle deployment. Since the initial conference, MPSC staff focused on rate design, grid impacts, and regulatory guidance on the role of the regulated utility in the electrification of the transportation sector.

- The MPSC also coordinated with MAE on other issues such as cybersecurity matters and customer assistance.

MAE Customer Assistance Division

The MPSC and MAE also collaborated to deliver quality and timely customer assistance to Michigan residents. This effort is led by the Customer Assistance Division (CAD) housed within MAE. In 2017, 11,578 customers contacted the division with a complaint or inquiry (see Figure 1). Division staff served as coordinators for 24 formal complaint cases for customers who were not satisfied with the resolution of their complaint at the informal level. The division handled 6,612 energy-related contacts, 1,173 telecommunication contacts, and 3,793 other contacts. Common complaints and concerns in 2017 included billing issues, outages, and cancellation of alternative gas supplier contracts.

Figure 1: Customers Contacting Customer Assistance 2015 - 2017



On October 25, 2017, in U-18455, the Commission ordered MPSC staff to review the Upper Peninsula Power Company’s estimated billing practices and submit a report summarizing the findings and conclusions in 90 days.

On December 11, 2017, through Case No. U-18120, the formal adoption of the Consumer Standards and Billing Practices for Electric and Natural Gas Service went into effect. In addition to combining the previous rule sets for residential and non-residential customers, this ruleset strengthens protections for utility customers in areas such as data privacy and service to households caring for critical care customers. In conjunction with adopting the new rules, the Commission also approved a common medical certification form (Case No. U-18479) that customers of all rate-regulated utilities will use to verify a medical condition to prevent having their utility services discontinued for nonpayment of bills. The residential rules were last updated in 2007 and the non-residential rules in 2008.

In 2017, the Customer Assistance Division received a higher than usual number of complaints from customers of DTE Energy related to the company's transition to a new IT billing platform. Concerns were raised regarding DTE Energy's timeliness in responding to customer complaints, customers who had not received a bill for up to six months, incorrect bill information, budgetwise billing errors, and shut offs without proper notification. Staff met frequently with the Company and established performance measures for DTE Energy to eliminate the backlog of customer complaints. A formal investigation into the Company's shutoff and billing practices and potential rule violations is currently ongoing (case numbers U-18486 and U-20084).

Regulatory Process Improvement

During the year 2017, the MPSC used the "lean process improvement" methodology through the State of Michigan's Office of Reinventing Performance in Michigan, to analyze and reengineer processes to maximize efficiency and/or streamline workflows. By using this methodology, the MPSC worked to:

- i. redesign an obsolete data collection and reporting system for natural gas pipeline safety and facility damage prevention; and
- ii. define workflow processes for the collection, preservation and security of official documents and enhancement of efficiencies through automation

Both process improvement projects enabled the MPSC to improve timeliness, efficiency and quality of service delivery. The new E-Dockets application launched in January 2018 and the MPSC is in the procurement stage for the gas safety data system overhaul.

Staff Organization

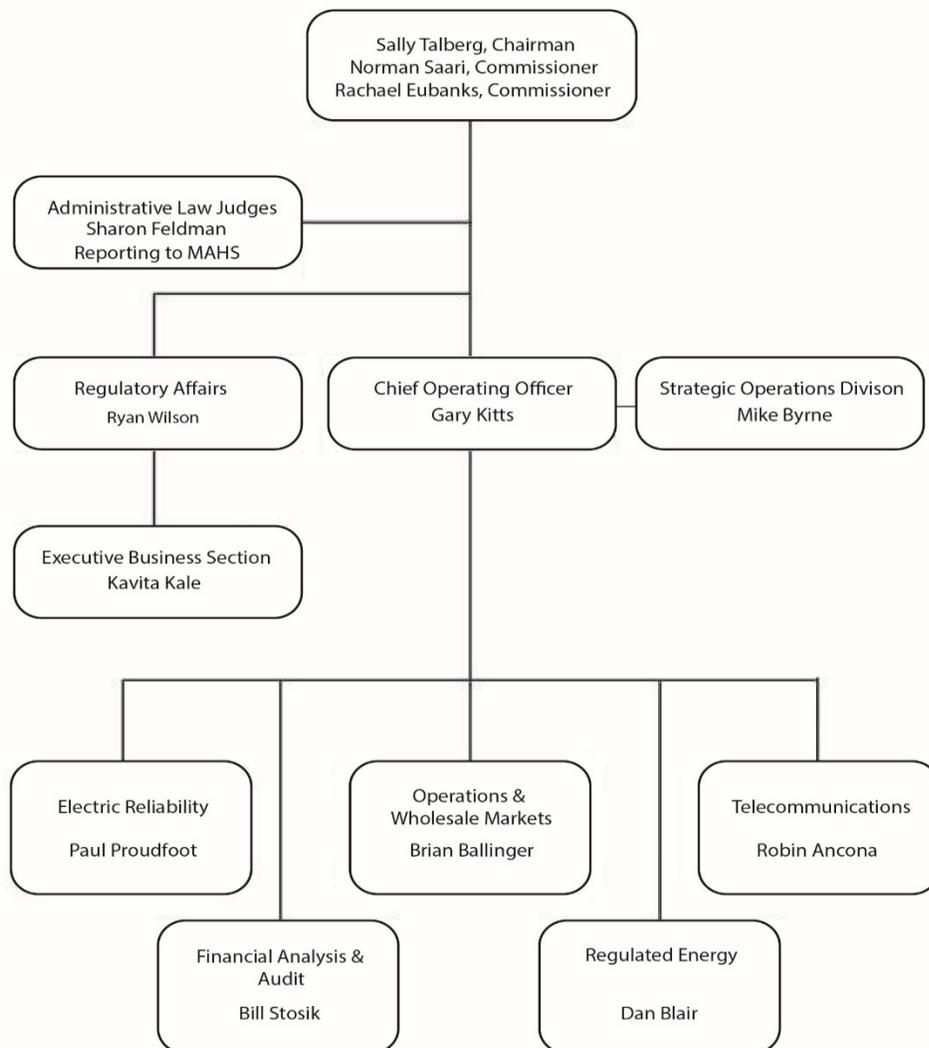
In 2017, the Michigan Public Service Commission had 130 full-time employees on staff, organized into seven divisions:

- i. Regulatory Affairs Division, responsible for the drafting of Commission orders and administrative rules, and maintaining the Commission's files and official dockets
- ii. Electric Reliability Division, responsible for implementation of the state's Clean and Renewable Energy and Energy Waste Reduction Act and evaluating certificate of necessity filings
- iii. Financial Analysis & Audit Division, responsible for accounting and audit issues, reconciliations, financial statistics, annual reports, administration of Michigan's gas and electric customer choice programs, electric resource adequacy and modeling
- iv. Operations & Wholesale Markets Division, responsible for ensuring safe, reliable and accessible energy supplies
- v. Regulated Energy Division, responsible for electric, natural gas, and steam utility ratemaking functions, including gas and electric power supply
- vi. Strategic Operations Division, responsible for supporting the Commission decision making process, interaction with external stakeholders, case management and strategy, implementation of the new energy legislation, and budget management
- vii. Telecommunications Division, responsible for all aspects of the Commission's authority related to telecommunications services: under the Michigan Telecommunications Act (MTA), the Metropolitan Extension Telecommunication Rights-of-Way Oversight (METRO) Act; the Video Franchise Act and the Emergency 911 Service Enabling Act and also pursuant to delegated authority from the Federal Telecommunications Act (FTA) and Federal Communications Commission (FCC) orders.

In addition to MPSC’s seven divisions, the Michigan Administrative Hearing System maintains an office of specialized Administrative Law Judges, who conduct hearings on Commission cases.

The Commission performs functions that are common to state government. Every state in the nation has a similar agency that is responsible for utility regulation and other functions handled by the Commission. The MPSC is relatively small compared to others. For example, MPSC has a staff of 19.1 per million population compared to the national (including Washington, DC) average of 25.3 and an average of 23.1 in other Great Lakes states.

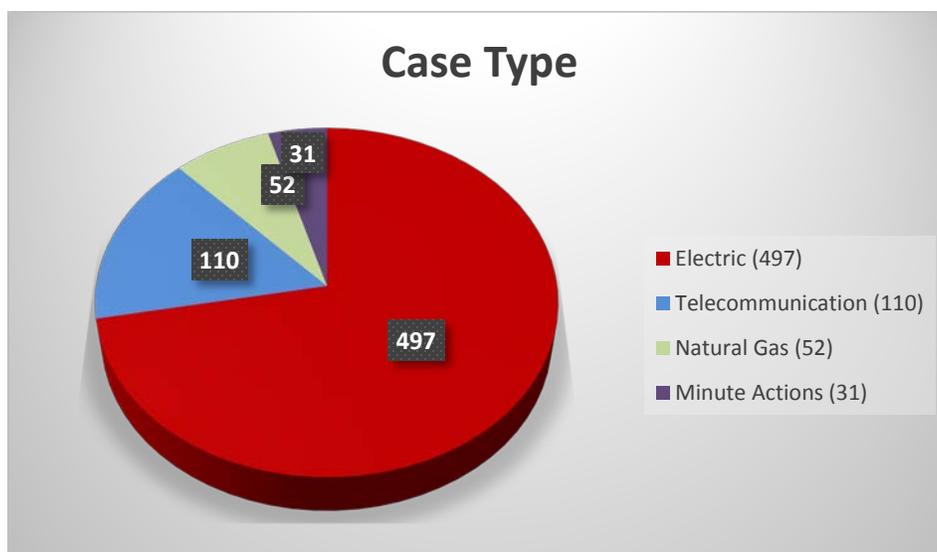
MPSC Organizational Chart



Regulatory Affairs Division

Through the Regulatory Affairs Division, the Commission issued 659 orders in 2017 (see figure 2), consisting of 497 electric, 110 Telecommunication, and 52 natural gas orders. The Commission also issued 31 minute actions. The Executive Secretary received and processed 9,855 official documents from applicants, complainants, respondents, parties, intervenors, and other interested persons. The Commission opened 281 cases and closed 138 cases in 2017.

Figure 2: Cases by Utility Type



Twenty formal complaints were served upon regulated telecommunications, cable, electric, and gas providers. Also, 166 notices of hearing and notices of opportunity to comment were issued on behalf of the Commission. Three hundred and eighteen administrative hearings were scheduled in 2017. More than 300 industry officials and interested persons were electronically notified of Commission's Own Motion orders through an automated electronic notification system. The Executive Secretary also responded to 45 Freedom of Information Act requests.

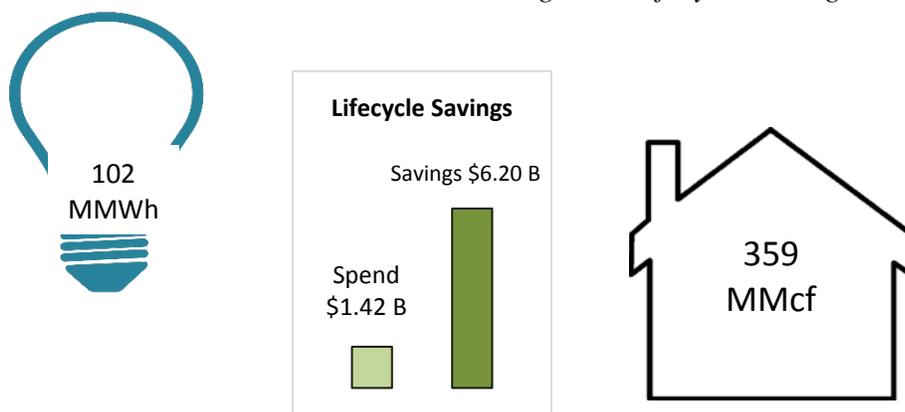
During 2017, the Executive Secretary also lead the effort to modernize and replace the aging MPSC E-Dockets system to provide improved management of case data and documents. The new system was released in January 2018.

Electric Reliability Division

Through the Electric Reliability Division, the Commission approved 13 energy waste reduction (EWR) (previously known as Energy Optimization) annual reconciliation case filings. The Commission received annual reports from 62 utilities, cooperatives and municipal utilities and found them to be in compliance. Michigan utility providers have reached their annual required targets year after year, and in most cases have exceeded the statutory requirement for EWR. This year the commission staff also assessed the reasonableness and prudence of 62 utility biennial plan filings. These plans were updated in accordance with Public Act 295 of 2008 as amended by Public Act 342 of 2016 (PA 342). PA 342 provided guidance on the continuation of EWR and required the MPSC to conduct a statewide study of the potential for additional energy waste reduction in the state. Through a stakeholder process, the Upper and Lower Peninsula were studied and the recommendations were integrated into the IRP framework adopted by the MPSC in 2017. The findings identified additional opportunities for cost-effective programs to help all types of customers cut energy waste. In addition, staff initiated a process to create on-bill financing (OBF) rules for the utility providers pursuant to the new energy laws to allow customers to finance improvements that cut energy waste such as insulation or furnaces and to pay back the cost on their utility bill.

MPSC's studies show that Michigan's utility customers will realize over \$6 billion in monetary savings through the EWR programs and measures that have been implemented since 2009. This equates to a lifetime savings of over 102 MMWh, and 359 million MMcf savings (see figure 3).

Figure 3: Lifecycle Savings

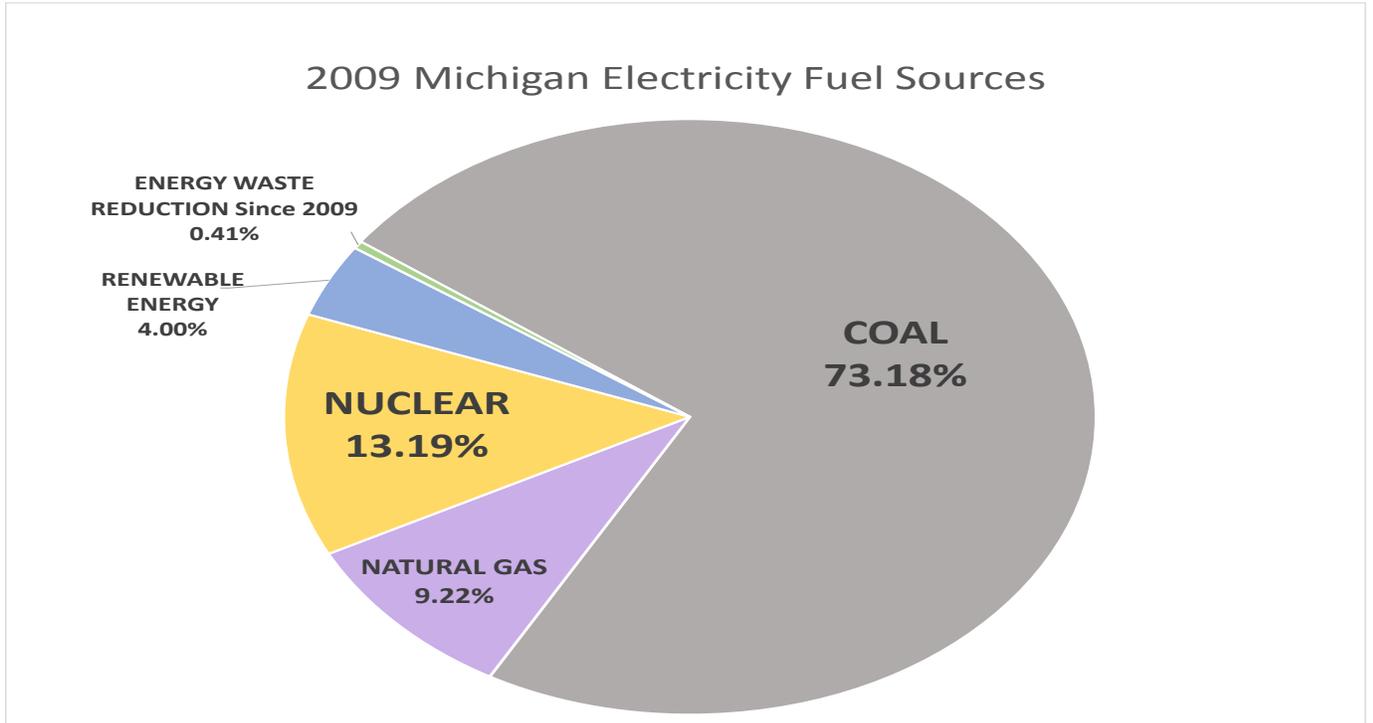


The Generation and Certificate of Need Section conducted a review of the application for a certificate of necessity for new electric generation facilities located in the Upper Peninsula of Michigan. With the pending retirement of the Presque Isle coal plants in Marquette, the Commission approved this new gas-fired electric generation in October. In addition to the review of environmental utility expenditures in rate case filings, the section was also involved in numerous stakeholder meetings to develop recommendations addressing key requirements in the new energy laws including 1) updating filing requirements for certificate of necessity cases; 2) proposing new filing requirements for parties who wish to file competing projects for new electric generation; and 3) developing transmission expansion modeling recommendations to incorporate in the statewide IRP proposal. In recognition of the importance of the new energy laws in shaping Michigan's energy future, the DOE awarded the Commission several grants from its Technical Assistance Program, providing technical experts to assist with development of planning parameters for the statewide IRP proposal.

The Commission approved seven renewable energy plan amendments, handled eight renewable energy reconciliation cases, and approved a renewable energy contract. Staff concluded its stakeholder group meetings to study standby rates and issued a [report](#) describing the group's activities. The Commission issued six orders related to the continued implementation of the Public Utility Regulatory Policies Act of 1978 for rate-regulated electric providers. As part of implementing PA 342, the Commission established filing requirements for renewable energy plans and voluntary green pricing programs and established filing dates for each provider. As required by PA 342, the Commission issued an order establishing the distributed generation program. Pursuant to the new energy laws, the Commission is conducting a "...study on an appropriate tariff reflecting equitable cost of service for utility revenue requirements for customers who participate in a net metering program or distribution generation program..."

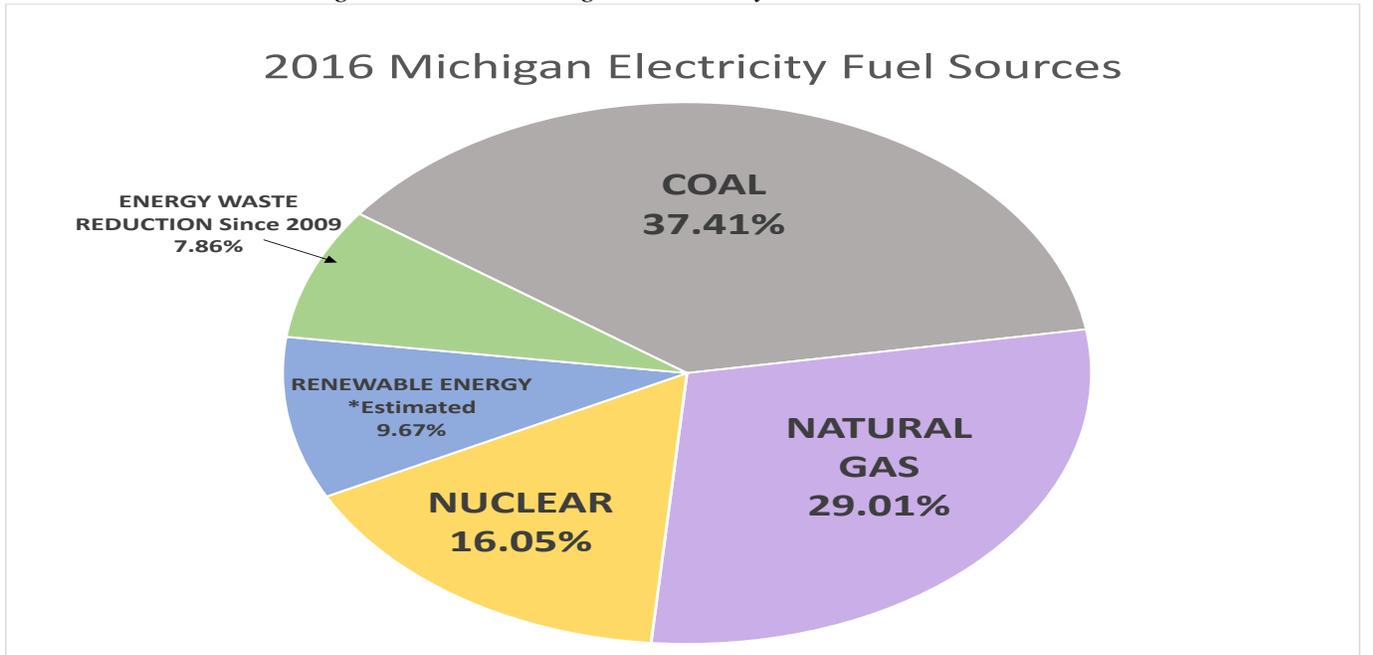
As the two graphs below show (figures 4 and 5), Michigan utility providers are progressing toward meeting 35% of the state's energy needs through a combination of renewable energy and energy waste reduction by 2025.

Figure 4: 2009 Michigan Electricity Fuel Sources



Source: <https://www.eia.gov/electricity/data.php>

Figure 5: 2016 Michigan Electricity Fuel Sources



Source: <https://www.eia.gov/electricity/data.php>

Financial Analysis & Audit Division

Through the Revenue Requirements Section of the Financial Analysis & Audit Division, the Commission received five electric and two natural gas case applications in 2017. The Commission issued orders revising the retail natural gas rates of Consumers Energy Company and Northern States Power Company, and the retail electric rates for DTE Energy, Consumers Energy and Alpena Power Company (see figure 6). Staff was active in these cases, presenting results of audits and analyses to support revisions to the utilities' filings. As seen below in figure 7, there are six rate cases pending.

Figure 6: Rate Orders Issued

RATE ORDERS ISSUED							
Company	Type	Case #	Filed	Increase Requested	Order Date	Increase Granted	% Granted
DTE Energy	Electric	U-18014	2/1/2016	\$ 344,000,000	1/31/2017	\$184,336,000	54%
Consumers Energy	Electric	U-17990	3/1/2016	225,000,000	2/28/2017	113,277,000	50%
Consumers Energy	Gas	U-18124	8/1/2016	90,483,000	7/31/2017	29,211,000	32%
Northern States Power	Gas	U-18140	10/10/2016	346,762	3/28/2017	260,000	75%
Alpena Power	Electric	U-18324	6/1/2017	<u>1,930,057</u>	<u>11/21/2017</u>	<u>1,350,000</u>	<u>70%</u>
Total				\$ 661,759,819	5 Orders	\$328,434,000	50%

Figure 7: Rate Orders Pending

RATE ORDERS PENDING							
Company	Type	Case #	Filed	Increase Requested	Order Date	Increase Granted	% Granted
Consumers Energy	Electric	U-18322	3/31/2017	\$ 173,000,000	Pending		
DTE Energy	Electric	U-18255	4/19/2017	231,000,000	Pending		
Indiana Michigan Power	Electric	U-18370	5/15/2017	51,700,000	Pending		
Consumers Energy	Gas	U-18424	10/31/2017	178,000,000	Pending		
Northern State Power	Electric	U-18462	11/17/2017	1,087,000	Pending		
DTE Energy	Gas	U-18999	11/22/2017	<u>85,000,000</u>	<u>Pending</u>		
Total				\$ 719,787,000	6 Pending		

Pursuant to revisions in Public Act 341 of 2016 (PA 341), general rate case standard filing requirements were updated through a special Commission's Own Motion proceeding. The Financial Analysis and Audit Division led staff in collaboration with utilities and stakeholders in revising the requirements. Staff filed proposed standard filing requirements, which were amended and adopted by the Commission on July 31, 2017. The new rate case standard filing requirements prescribe the guidelines for testimony, exhibits, schedules, supplemental information, and scheduling for rate cases filed under the new 10-month rate case schedule. The standard filing requirements can be found in the MPSC E-Dockets, Case No. U-18238, and linked here: <https://mi-psc.force.com/sfc/servlet.shepherd/version/download/068t0000001UW8p>

The Commission issued orders in 11 merger and acquisition, securitization, divestment, revenue decoupling, self-implementation reconciliation, and miscellaneous reconciliation cases that were assigned to the Revenue Requirements Section.

Resource Adequacy and Retail Choice staff led the implementation of PA 341 Section 6t and Section 6w during 2017. Staff collaborated with stakeholders on integrated resource plan filing requirements, developed required IRP scenarios and sensitivities for Michigan utilities, and held technical conferences on capacity demonstration requirements in 2017. The work on PA 341 Section 6s and 6t culminated in Commission orders issued prior to the end of 2017 approving Michigan IRP Parameters, IRP filing requirements, the implementation of state reliability mechanism capacity charges in five utility service territories in Michigan, and requirements for the state reliability mechanism capacity demonstrations covering the initial four planning years.

To date, there have been a total of 73,739 visitors to the Gas Choice Comparison Website, www.michigan.gov/CompareMIGas (which was launched on October 5, 2015). The Division tracked participation in choice programs and found that the number of both electric choice customers and gas choice customers throughout the state decreased in 2017.

Operations & Wholesale Markets Division

With technical support from the Operations & Wholesale Markets Division (OWMD), the Commission issued 15 orders (see figure 8) for the following: one certificate of public convenience and necessity for a natural gas utility, six applications for authority to construct and operate natural gas pipelines, two actions related to the waiver of gas safety requirements, one electric rate case, and one electric utility complaint case.

Figure 8: Commission Orders - OWMD 2017

Gas Pipeline Construction Requests (Act 9)	6
Natural Gas Certificate of Convenience and Necessity (Act 69)	1
Pipeline Safety (Act 165)	2
Waiver for Electric and Gas Meter Testing	1
Electric Operations - Administrative Rules 460.3411 and Rule 460.2705(1) Cases	3
Staff Investigation into Accidental Electrocution	1
Remand on Opt-Out Tariff	1

In addition, OWMD staff assisted in providing testimony in three electric cases, four gas cases, one merger and acquisition case and one steam case. Also, OWMD staff provided significant contributions in Case No. U-18238 in which the Commission, on its own motion, revised the standard rate case application filing forms and instructions. This effort is intended to provide additional information upfront in utility rate case applications to support review by Staff and other parties.

Staff has also spent a considerable amount of time working with the utilities and interested parties to assist in the development of Consumers Energy and DTE Electric Company's five-year distribution plans. A workshop was held with participants across the country sharing knowledge about best practices. In addition, comments were filed in the electronic dockets by interested parties. The plans will be complete the first quarter of 2018. In addition, staff continued to work with the City of Detroit and DTE Electric Company to address issues

associated with the City's abandoned arc wire that is attached to DTE's electric distribution facilities to improve electrical safety in Detroit. Furthermore, the staff reviewed Consumers Energy and DTE Electric Company's response to a major wind storm in March 2017 that left power out to some residents for up to a week to ensure the utility was prepared, and properly and expeditiously responded to the outages. DTE Electric Company reported that it was the largest number of outages from a storm in company history.

Staff assisted in the Upper Michigan Energy Resources Corp. (UMERC) case where the Commission issued a certificate of necessity to construct two new natural gas-fired generators and a certificate of public convenience and necessity to construct natural gas pipelines to replace the Presque Isle Power Plant in the Upper Peninsula. Staff continued to review all Michigan investor-owned utilities' reliability data and power quality data to ensure customers were not experiencing power quality issues with the electric distribution system, and that the dollars spent by the companies intended to improve the distribution system and the dollars spent by the companies intended to improve the distribution system increased reliability.

In four major rate cases, the division staff reviewed electric distribution operations capital spending and operations and maintenance expenses. This included tree trimming and capital upgrades to improve electric reliability. In addition, the staff evaluated and provided testimony addressing the reasonableness and prudence of smart grid investments, including advanced metering infrastructure (AMI) meter installations, cybersecurity, billing rules, customer access, and information technology (IT) investments. Staff has led the research effort investigating performance based ratemaking, targeting completion of a report for the Governor and Legislature per PA 341 by April 20, 2018.

The Gas Operations gas safety engineers inspected all jurisdictional natural gas pipeline operators as required, achieving a total of 860 inspection days. These inspection days included investigation of 12 federally reportable gas safety incidents, including the rupture of Consumers Energy's pipeline facilities in Orion Charter Township, and over 100 days of inspection activity related to the construction of Rover Pipeline and NEXUS interstate pipeline projects. The Gas Operations gas safety staff also finalized significant gas safety incident reports and assessed civil penalties totaling \$193,000 for non-compliance related to the Michigan Gas Safety

Standards and assessed civil penalties totaling \$6,000 for non-compliance related to underground facility damage prevention.

Regulated Energy Division

Regulated Energy Division (RED) staff actively participated in the following workgroups formed as a result of PA341 and PA342 of 2016.

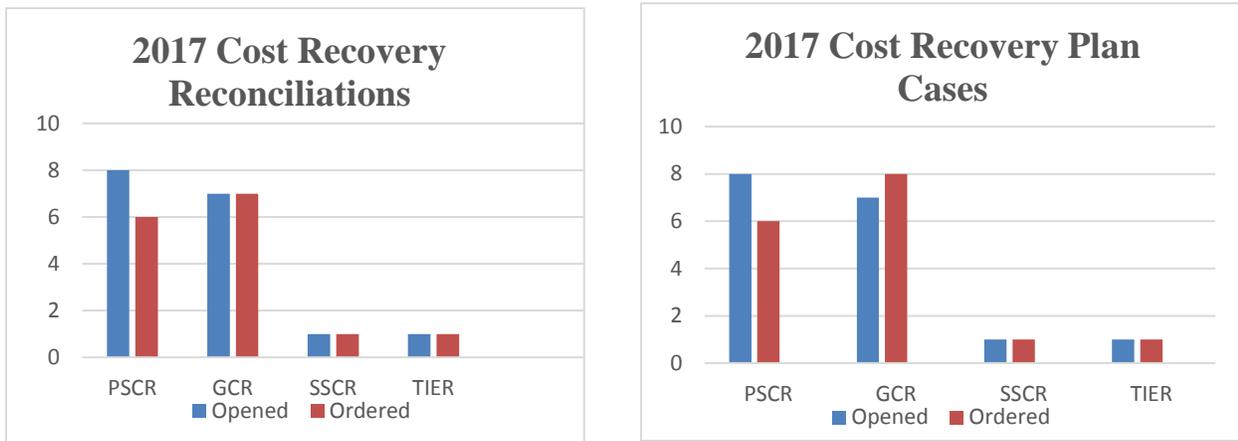
- Performance Based Ratemaking
- Rate Case Filing Requirements
- Code of Conduct/Value Added Programs
- Demand Response Implementation
- Distributed Generation Program
- State Reliability Mechanism
- Integrated Resource Planning Process

RED staff also provided ad hoc technical support and expertise to all other work groups formed as a result of the energy laws.

Through the Regulated Energy Division, the Commission opened eight Power Supply Cost Recovery (PSCR) plan cases, eight PSCR reconciliation cases, seven Gas Cost Recovery (GCR) plan cases, seven GCR reconciliation cases, one Steam Supply Cost Recovery (SSCR) plan case, one SSCR reconciliation case, one Times Interest Earned Ratio (TIER) case, and one Code of Conduct (COC) case. The Commission issued orders in eight PSCR plan cases, six PSCR reconciliation cases, eight GCR plan cases, seven GCR reconciliation cases, one SSCR plan case, one SSCR reconciliation case and one TIER case during 2017. In addition, RED staff coordinated and/or provided analysis in several tariff change cases, one Integrated Resource Plan parameter case, three electric rate cases, one gas rate case, one Self-Implementation reconciliation case, one Demand Response Framework Case, one case reconciling amounts spent by DTE on former Detroit Power and Light Department customer conversions (Detroit Public Lighting Department Transitional Mechanism), two gas Revenue Decoupling Mechanism cases, five electric State Reliability Mechanism (SRM) cases determining the mechanism process and calculation of capacity costs, the Consumers Energy Palisades Securitization case, and the

UMERC Certificate of Need (CON) case to build two power generation plants, which included special contract approval review for the Cliffs mines in the Upper Peninsula (see case type and outcome in figure 9).

Figure 9: Regulated Energy Division - Case Type and Outcome Order Opened vs. Order Issued



The division worked in conjunction with the Financial Analysis & Audit Division on five electric rate cases and two natural gas rate cases. In particular, the Act 304 & Sales Forecasting section is responsible for reviewing utility sales forecasts, power plant production capital expenditures and operation and maintenance expenses, the cost of gas, and the cost of gas in underground storage. The Rates and Tariffs Section is responsible for certain expenses, revenues, rate design, cost of service studies, and tariff changes.

In addition to rate cases, this division provided assistance in four electric utility depreciation cases, two natural gas utility depreciation cases, and a depreciation case for the Ludington Pumped Storage Facility. Four of the seven cases are pending.

The Analytical Support Section, in addition to participating in the Code of Conduct workgroup and the rule making associated with PA 341 covering new “Value Added Programs”, continues to review requirements of various docketed cases involving Affiliate Transactions of regulated gas and electric utilities. A collection of issues based on previous MPSC decisions, relevant actions from other states and the Federal government continues to be updated as a reference for Commission staff.

Telecommunications Division

Through the Telecommunications Division, the Commission granted licenses, or approved amendments to existing licenses, for five telephone companies. There were also five license surrenders. At the end of 2017, a total of 428 companies were registered as intrastate telecommunications service providers in the state. This number has increased over the past year, showing that the telecommunications companies continue to offer services in Michigan and complete the self-registration process annually.

Metropolitan Extension Rights-Of Way (METRO) tax credits for 67 providers were approved in 2017, and the Division processed 105 METRO/Rights-of-Way notices of permit applications from municipalities.

Two formal complaints were filed by service providers against other providers under the Michigan Telecommunications Act (MTA) in dockets U-18456 and U-18460. These complaints were resolved during the MTA's mediation process. The Commission also commenced a formal proceeding to promulgate rules governing the obligations of providers of basic local service that cease to provide the service in docket U-18360.

In 2017, there were a total of 59 wireline and wireless providers re-certified as Eligible Telecommunications Carriers (ETC) in Michigan. In addition, one new provider (Assist Wireless) became an ETC, bringing the total to 60 ETCs operating in Michigan in 2017. One ETC (Budget PrePay) relinquished its ETC designation in 2017. The Division continues to receive and review applications for ETC designation.

As noted in last year's report, the MPSC was successful in obtaining a waiver from the FCC to allow time for Michigan to align its eligibility criteria with the FCC's Lifeline eligibility rules and update its eligibility database. This waiver originally was set to expire on December 31, 2017. However, on November 30, 2017, the MPSC filed a waiver extension request with the FCC. On December 18, 2017, the FCC granted the MPSC a waiver extension until June 30, 2018.

The Division was also in charge of the video franchise duties (pursuant to Public Act 480 of 2006 (PA 480)) and handled 860 video/cable complaints and inquiries during 2017. In addition, there were five formal complaints filed by customers, with four being found to meet the merits of

prima facie. The MPSC also issued three Show Cause orders against three video/cable providers for potential violations of PA 480, which were ultimately resolved.

The division continues to handle the daily administration of the Intrastate Switched Toll Access Restructuring Mechanism (ARM), taking in monthly contributions from 246 providers and disbursing \$15,792,168.54 to 35 eligible carriers in the fiscal year. In addition, the Commission is required by the Michigan Telecommunications Act to recalculate the size of the ARM fund by March 13, 2018. In October, the MPSC issued an order in Case No. U-16183 to begin this process by collecting data from eligible and contributing providers to the ARM. Data collection is underway and more information on the recalculation will be in next year's report.

The division also continued its work with Connect Michigan to expand broadband availability, adoption, and use throughout Michigan. Connect Michigan's fourteenth telecommunications infrastructure map was published in 2017 and includes coverage information for 543 voice and broadband providers. The coverage data for this map was gathered by Connect Michigan from public and private sources, working directly with many providers to refine and update data as needed. Connect Michigan also performed field validations in several areas of Michigan, examining areas of concern and therefore improving the accuracy of the map. All maps are available at www.connectmi.org. While broadband has expanded since the first map was published by Connect Michigan in 2010, there are still many underserved areas in the state and the mapping, research, and community planning performed by Connect Michigan play a vital role in helping state, local, and federal stakeholders to make informed decisions to best support further broadband deployment. An advanced communications infrastructure was identified as one of the cornerstones of the Governor's 21st Century Infrastructure Commission Report issued in December 2016 and the Commission continues to work towards improved broadband access and adoption through state and federal programs such as Connect Michigan and the FCC's Connect America Fund.

The Division continues to monitor and participate when needed in ongoing proceedings at the federal level, including those relevant to the transition of landline telephone service to Internet Protocol (IP) networks, and their potential impact on the citizens of Michigan.

MAHS Administrative Law Judges

During 2017, MAHS Administrative Law Judges (ALJs) assigned to Commission proceedings held hearings on 237 days in 130 cases, transmitted 135 cases to the Commission, and issued 22 proposals for decision (PFDs). There were 71 cases pending before ALJs at the end of the year. Among the cases handled, three rate cases were completed during the year, and six were pending at year-end, with four of the pending cases subject to the new statutory 10-month deadline. Additionally, the ALJs issued PFDs in several cases initiated by the Commission to address avoided cost calculations under the federal Public Utility Regulatory Policies Act of 1978, several cases under Public Act 304 of 1982, several complaint cases, and a certificate of necessity case brought under MCL 460.6s. The ALJs also continued to mediate cases under the Telecommunications Act and the Uniform Video Services Local Franchise Act. In consideration of the requirements of Public Acts 341 and 342 of 2016, MAHS assigned an Administrative Law Specialist (ALS) to the group, as well as an additional ALJ, bringing the number of ALJs assigned to hear Commission cases to seven.

Media and Public Information

The MPSC utilizes a MAE staff member to provide media and public information services. The Commission issued 55 press releases covering 176 Commission orders and 15 news releases related to Commission programs and activities. In addition, the Commission provided information and assistance to over 340 media contacts.

For more information about Commission activities, please visit the Commission's website at <http://www.michigan.gov/mpsc>.