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October 6, 2010

Honorable Jennifer Granholm
Governor of Michigan

Honorable Members of the Senate Energy Policy
and Public Utilities Committee

Honorable Members of the House of Representatives
Energy and Technology Committee

The enclosed report, Advisability of a Michigan Power Purchasing Pool, is submitted on behalf of the Michigan Public Service Commission (Commission) in accordance with MCL 460.10r(7), and represents the results of the research conducted by the Commission and its Staff. The report is available on the Commission's website under reports and also in Case No. U-16197. The report provides the Commission's findings on the merits of creating a Michigan power purchase pool.

The Commission opened Case No. U-16197 to receive comments from interested parties regarding Section 10r(7), which requires the Commission to investigate the advisability of creating a Michigan only purchasing power pool. The docket initiated a formal Commission investigation. The following interested parties submitted comments: the Association of Business Advocating Tariff Equity, Consumers Energy Company, Buck Denton, The Detroit Edison Company, Energy Michigan, Michigan Electric Cooperative Association, Wolverine Power Supply Cooperative, Michigan Electric and Gas Association, Michigan Environmental Council, Michigan Industrial Ratepayers, Michigan Wholesale Power Association and the Sierra Club.

The Michigan Public Service Commission held a stakeholder meeting on Case No. U-16197 on Friday, June 11, 2010. Eleven individuals participated in the meeting. All parties present were given the opportunity to summarize their earlier written comments and take questions from other parties before the meeting was opened to further discussion. Stakeholder comments and discussion were robust and raised many policy questions.

In this report, the Commission finds that a new in-state power purchasing pool would be redundant given that Michigan electric utilities are already participating in multistate regional energy markets. These regional transmission organizations (RTOs) already exercise operational control over the participating utility systems, operate competitive wholesale electric energy markets and control system reliability. Both the Midwest Independent System Operator (Midwest ISO) and PJM Interconnection currently provide many of the benefits that might hypothetically be provided by a Michigan-based power purchasing pool, and may in many respects be more beneficial to Michigan customers than would the creation of a separate Michigan-based power purchasing pool. In order

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to implement a Michigan-based power purchasing pool, most of these benefits would be lost. In addition, creating a new pool could result in expensive duplication, inefficiency and increased costs to Michigan's ratepayers, without enhancing reliability. On balance, the Commission believes that Michigan's ratepayers would not benefit from creating a Michigan-only purchasing power pool at this time.

Very truly yours,

Orjiakor N. Isiogu, Chairman

Monica Martinez, Commissioner

Greg R. White, Commissioner

**REPORT ON THE
ADVISABILITY OF A
MICHIGAN POWER PURCHASING POOL**

**Orjiakor N. Isiogu, Chairman
Monica Martinez, Commissioner
Greg R. White, Commissioner**

MICHIGAN PUBLIC SERVICE COMMISSION
Department of Energy, Labor & Economic Growth

October 6, 2010



Introduction

On October 6, 2008, Governor Jennifer M. Granholm signed into law Public Act 286 of 2008 (PA 286). [Section 10r\(7\) of 2008 PA 286, MCL 460.10r\(7\)](#), provides:

(7) Two years after the effective date of the amendatory act that added this subsection, the commission shall conduct a study and report to the governor and the house and senate standing committees with oversight of public utilities issues on whether the state would benefit from the creation of a purchasing pool in which electric generation in this state is purchased and then resold. The report shall include, but is not limited to, whether the purchasing pool shall be a separate entity from electric utilities, the impact of such a pool on electric utilities' management of their electrical generating assets, and whether ratepayers would benefit from spreading the cost of new electric generation across all or a portion of this state.

On February 8, 2010, the Michigan Public Service Commission (Commission) issued an Order and Notice of Opportunity to Comment in Case No. U-16197. In its Order, the Commission indicated that interested parties should have an opportunity to offer recommendations for the report required by the above statutory language, and stated that any comments should be submitted no later than March 8, 2010. The Commission's invitation resulted in 10 filed comments. Copies of the comments are available on the Commission's website in [Case No. U-16167](#) (summaries can be found in Appendix A).

Respondents included: Association of Business Advocating Tariff Equity, Consumers Energy Company (Consumers Energy), Buck Denton, The Detroit Edison Company (Detroit Edison), Energy Michigan, Michigan Electric Cooperative Association (MECA), Wolverine Power Supply Cooperative (Wolverine), Michigan Electric and Gas Association (MEGA), Michigan Environmental Council (MEC), Michigan Industrial Ratepayers, Michigan Wholesale Power Association and the Sierra Club.

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Case No. U-16197

The statutory language in PA 286 apparently left room for interpretation regarding what was meant by "purchasing pool," as there were disparate readings among commenters. Michigan Industrial Ratepayers posited that "generally speaking, a purchasing pool would buy power and then re-sell that power, presumably to Michigan's load-serving entities, and the costs would be spread across all or a portion of the state." For Detroit Edison, the purpose of a purchasing pool "is to improve the economics and reliability of the electrical systems of the members of the pool." Other commenters noted that there was some ambiguity about the subject – Energy Michigan, for example, contends that "significant details need to be provided before

the power pooling concept can be properly evaluated.” Consumers Energy also believes that the statute is unclear in its focus, noting that “there are a host of related activities and functions that might be included within the broad term ‘purchasing pool.’”

In spite of this perceived ambiguity, several commenters spoke of the potential benefits of power purchase pool creation. Buck Denton, for example, believes that a power purchasing pool could “allow consumers to benefit from Michigan’s purchasing power” and also thinks it could promote the use of renewable energy resources. MEC and Sierra Club believe that a purchasing pool could help to eliminate “market imperfections,” such as those that arise when a utility chooses higher cost capital projects in deference to its shareholders over long-term power purchase agreements that may be more beneficial to ratepayers. The Michigan Wholesale Power Association echoes this sentiment, noting that power pools would be beneficial because they would “eliminate decision bias” they claim is inherent in the current system that allows utilities to decide what new generation to bring online. Power purchase pools would instead allow “decisions pertaining to the procurement of power resources in Michigan [to be] made by a disinterested and qualified decision maker.” This would ultimately benefit ratepayers by keeping higher cost capital projects from being built into the utility rate-base.

Other commenters were more skeptical that power purchasing pools could result in lower costs, and questioned what such pools would mean for reliability as well. MEGA and MECA/Wolverine, among others, pointed out that Michigan’s utilities are already members of one of two regional transmission organizations (RTOs) — the Midwest Independent Transmission System Operator, Inc. (Midwest ISO or MISO) or the PJM Interconnection (PJM). The majority of Michigan is in the Midwest ISO footprint, including Consumers Energy, Detroit Edison, Alpena Power Company, Edison Sault Electric Company, Northern States Power Company - Wisconsin (Xcel), Upper Peninsula Power Company, Wisconsin Electric Power Company and the Wisconsin Public Service Corporation. The Commission does not regulate municipal utilities; however, typically they are associate Midwest ISO members. The Southwestern corner of the Lower Peninsula, the Benton Harbor/St. Joseph region served by Indiana Michigan Power Company (part of American Electric Power), is in the PJM footprint.

RTOs are Federal Energy Regulatory Commission (FERC) regulated organizations that coordinate, control, and monitor utilities’, generators’ and marketers’ use of the electric transmission system and dispatch generation on a broader regional basis. Several commenters pointed out that these entities perform a number of functions that would likely be similar to or duplicative of an electric power purchasing pool. In its comments, Consumers Energy notes that the functions already performed by the RTOs that could be mirrored by a Michigan power purchase pool include “integrated transmission and generation scheduling and dispatch functions for Michigan customers,” “administration of electric capacity markets,” and “short and long-term resource planning activities under the existing ‘capacity adequacy’ framework . . .” Any effort to create a power purchasing pool would likely be complicated by Michigan’s dual RTO membership. Setting up a new framework and duplicating existing RTO functions would be likely to result in increased administrative costs for electric ratepayers across the state.

MEGA commented that Michigan has had experience in the past with power purchase pools. For example, Detroit Edison and Consumers “combined operation of their lower Michigan generation and transmission systems in the Michigan Electric Coordinated System (MECS), operated out of a joint system control center in Ann Arbor.” Both entities have since divested

their transmission assets and their generation capacity is now part of the Midwest ISO framework, which has effectively resulted in Michigan's electric power generation being part of an expanded pooling arrangement. This type of expansion is typically done to decrease operational "seams" between disparate utility systems, thus enhancing reliability. Consumers Energy suggested that creation of a Michigan power purchase pool could result in creation of new seams, wiping out the benefits from current RTO membership, and potentially creating new reliability issues.

Detroit Edison comments that another potential result of creating a Michigan-only power pool separate from the existing RTO framework would be to open up the power pool to regulation by FERC "as part of interstate commerce." Such an outcome could leave regulation by the State of Michigan, and the Commission in particular, over Michigan generation in question. Consumers Energy also notes that it is "unclear how transmission assets that are currently directly regulated by the FERC as part of MISO or PJM ... could be re-directed into a Michigan-based pool without FERC approval." Thus, in addition to the cost and reliability issues that were raised by several commenters, uncertainties may arise relative to legal and regulatory matters surrounding power purchase pools as well.

Policy Discussion and Recommendation

Based on the comments in Case No. U-16197 and Commission Staff analysis, a Michigan pool most likely would take one of two shapes. The first option would be for Michigan to create a sub-Michigan purchasing pool in the Midwest ISO and PJM. Alternatively, Michigan could create a Michigan-only pool outside of the RTO framework.

Either proposal would result in significant changes in power planning and market operation, and potentially has multiple disadvantages. Any new structure would be administratively complicated and expensive. There would be no additional value realized by using a third party to purchase Michigan generation and resell it to either RTO. Both MISO and PJM already perform the scheduling and dispatching of energy and based on economics of scale are able to dispatch the least costly power. Operating from a smaller footprint would be more inefficient, could open Michigan-only generation up to FERC regulation, and would likely result in additional costs to ratepayers, even if spread over the entire state.

Furthermore, there is a lack of significant interconnection between Michigan's upper and lower peninsulas. A Michigan-only pool concept would really create two smaller markets encompassing the Michigan Lower Peninsula and the Michigan Upper Peninsula in place of the regional markets administered by MISO and PJM. It is difficult to see how any power user would benefit from creation of the two small Michigan only markets. On the other hand, it is not difficult to project that power costs would increase and reliability would degrade. Moreover, incumbent owners of generating facilities likely would gain significant market power that would allow them to exercise undue influence over the price of power within Michigan. Any Michigan power purchasing pool would have to demonstrate that it would provide non-discriminatory service. RTO membership, with its independent management of the power grid, meets that federal requirement.

Neither the stakeholders nor Commission Staff found any data that would support that a Michigan pool would be more reliable than the existing Midwest ISO and PJM pools. The

Michigan co-ops, small investor-owned utilities and industrial stakeholders commented that a Michigan pool would not include reliability benefits. The larger investor-owned utilities commented that the pool might be less reliable than MISO or PJM because a Michigan pool would encompass fewer generating resources and diversity of resources than the larger RTO footprint. Large interconnections have greater diversity and resources to manage in emergencies. The amount and variety of generating resources available to meet energy demand could be drastically reduced under a Michigan-only power purchase pool arrangement. Overall cost would increase while system reliability could be compromised.

Many of the advantages of a proposed pool already exist with the status quo of RTO membership, and creation of a pool would only result in duplication of Midwest ISO and PJM systems and facilities. Any potential benefits would be greatly offset by the expense incurred to start up and operate such a pool. Ultimately, Michigan's consumers would face increased costs and decreased reliability. For these reasons, the Commission does not recommend the creation of a power purchase pool in Michigan.

Appendix A

Comment Summaries

The Commission received 10 comments from interested stakeholders on the purchasing power pool issue. Below is a summary of each party's comments.

[Association of Business Advocating Tariff Equity \(ABATE\)](#) argues there are no benefits from a Michigan purchasing pool that would spread new generation costs statewide. A pool would have damaging financial consequences for Michigan customers by increasing costs. ABATE offers an alternative policy suggestion. To ensure sufficient capacity is available for reliable, low cost electricity, ABATE calls for the creation of a statewide-integrated resource planning process.

[Buck Denton](#) supports a pool. Customers would benefit from Michigan's purchasing power. In addition, he argues that a pool would strengthen Michigan's energy security. The aggregation of renewable resources from increased clean, renewable energy would be very beneficial.

[Consumers Energy](#) finds insufficient justification for the creation of a pool. They find both the Midwest ISO and PJM already provide many of the benefits of a proposed pool. The exit from either regional transmission operators would be administratively complicated, difficult to achieve and quite expensive. A new pool would result in the creation of seams between existing markets and the new pool, which potentially could negatively affect reliability. These seams would introduce market inefficiencies increasing the overall cost of purchased and interchange power. In addition, the existing Midwest ISO footprint offers a stronger market for renewables than a Michigan-only pool.

[Detroit Edison](#) finds no benefit from a Michigan power purchasing pool. It would only result in additional costs and serious reliability concerns. Even with a pool, ITC's and METC's transmission systems would remain in the Midwest ISO. Consequently, Michigan would still be subject to a share of the Midwest ISO transmission cost allocation for new transmission projects that may not be in Michigan. Finally, Detroit Edison believes that the decision regarding how to serve the electric supply needs of their customers should be left to the entities on whom the obligation to serve falls.

[Energy Michigan](#) finds the power pool concept to be too vague, making it very hard for them to evaluate. Without specific details of any proposed pool structure, Energy Michigan thinks it is impossible to have a robust discussion. On an abstract level, Energy Michigan worries that a pool would result in higher economic liability and new reliability questions. In lieu of a pool, they suggest that the Michigan Legislature could expand the 10% cap on electric choice for retail competition and achieve the same policy goal of lowering rates. Such a policy would give all retail customers access to competitive, low price generation.

[Michigan Electric and Gas Association \(MEGA\)](#) finds no compelling reason for the creation of a pool. It would be redundant and not benefit the state. Michigan utilities already participate in multistate energy markets that offer competitive energy market prices and control system

reliability. A pool would introduce complex legal issues and new pool operations expenses and issues.

[Michigan Electric Cooperative Association \(MECA\) and Wolverine Power Supply Cooperative \(Wolverine\)](#) jointly comment and affirm MEGA's arguments against a pool. They find no compelling reason for a pool. Wolverine does not believe a pool would provide any clear benefit to utility customers. A Michigan-only pool would be inefficient and very redundant as Michigan utilities are already participating in and benefiting from the Midwest ISO or PJM power purchasing markets.

[Michigan Industrial Ratepayers](#) express discomfort with the ambiguity of the power pool issue. Finding few benefits, they have significant concerns with the creation of a pool. Considerable costs, risk, and inequities would result from a pool. The Michigan Industrial Ratepayers find neither any benefits nor improvements with the creation of a pool. It would only add another layer of cost for all ratepayers. The Michigan Industrial Ratepayers argue that with the current budgetary crisis, this is not the time to be expanding the role of government in direct competition with the private sector.

[Michigan Wholesale Power Association \(MWPA\)](#) believes this report offers an excellent opportunity to evaluate multiple policy initiatives including certificate of need, resource planning, renewables and more. The MWPA notes that the Midwest ISO market is limited in scope and purpose; no electricity may be bought or sold on the Midwest ISO market for sale or purchase more than a single day in advance. A significant portion of all electricity sold to consumers in Michigan does not clear through the Midwest ISO market. The MWPA suggests that the legislature examine a central purchasing function for this portion of the market for long-term capacity and energy purchases and production. The MWPA wants the Commission to recognize the built-in decision making bias of investor-owned utilities for increasing spending on capital assets. These fundamental decisions—how many and how much—should be decided by an independent body and not the utilities themselves. The existing bias needs to be eliminated and they call for rational decision making from the customers point of view. The MWPA argues the real benefit of a purchasing pool would be in the substitution of a state selected and supported decision maker in place of self-interested utilities as decision makers.

[Michigan Environmental Council \(MEC\) and Sierra Club](#), in a joint filing, state Michigan would benefit from a statewide purchasing power pool. They note that the existing market imperfections result in decisions that are not in the best interest of individual ratepayers. Pooling benefits both buyers by offering long-term competitive rates and producers by providing a sufficient return on investment.