

Background

In order U-14231, the Commission asked for policy recommendations regarding its resource addition policy. This policy relates to jurisdictional utilities alone. The Commission does not approve, disapprove, or control plant construction by non-jurisdictional entities but does have jurisdiction over rate recovery of generating plant from customers of regulated utilities. The Commission has requested policy recommendations on this rate recovery method. Some participants have indicated that fundamental changes are needed to the Michigan market, including legislative changes. We have encouraged participants to make recommendations within the Commission's existing jurisdiction and rate recovery methods, and we intend to do that throughout the Forum's proceedings.

Participants in the Capacity Need Forum have identified several aspects of the Commission's policies that they either affirm or argue need to be changed. These issues are:

- Pre-approval of plant construction
- Revenue certainty for recovering investment costs
- Competitive bidding
- CWIP in rate base without an AFUDC offset
- Energy Efficiency
- Market Power

In the July Capacity Need Forum meeting, Staff requested comments on the issues listed above. The comments generally reinforced earlier positions taken by various parties.

During the July meeting, Staff also discussed its belief that electric reliability is a public good. With characteristics of a classical economic public good, Staff noted that electric reliability is not likely to be provided by a competitive market alone. In fact, regional transmission organizations and states take an active role in promoting electric reliability, including those jurisdictions that rely on markets to provide electric generation services. Governmental intervention into the electric energy markets, where these markets exist, is widely practiced and accepted. Most recently, Congress has intervened to assure the reliability of the bulk power system by mandating the adoption of electric reliability standards in the Energy Policy Act of 2005. This critical public interest in electric reliability has served as a guiding principle in Staff's assessment of the comments received to date. In order to bridge the gulf between parties regarding the Commission's current policy, Staff offers the following suggestions for consideration by participants.

Reliability Option

If it chooses to do so, a utility can build a new generating plant in the traditional manner, that is it could finance the plant without public involvement and then request rate base

recovery after the plant is completed. However, the utility could instead seek to build a generating plant under the reliability option discussed herein.

Under the reliability option, the utility would file an application with the Commission containing the following: (1) details of its proposed plant, including expected cost and anticipated in-service date; (2) an analysis of why the proposed plant is the appropriate resource to meet the expected need and an analysis of the public benefits associated with the plant; (3) if desired, a request for placement of the plant's construction work in progress (CWIP) in rate base without an offset for allowance for funds used during construction (AFUDC); and (4) if desired, a request for a reliability charge on all customers receiving retail distribution service from the utility. The level and timing of the reliability charge would be designed to be commensurate with the public benefits associated with the plant.

A contested case public hearing would be held on the utility's application. If the Commission determined that the plant's expected reliability value warranted it, the Commission would permit CWIP in rate base without an AFUDC offset and would authorize a reliability charge on all distribution customers. In exchange for placing CWIP in rate base without AFUDC, the utility would commit to capping the recoverable value of the plant and an in-service date.

In exchange for paying a reliability charge, all customers would be credited with their pro-rata share of the plant's reliability value in satisfying any regional reliability standard. Further, if customers of an alternative electric supplier (AES) pay a reliability charge, the AES shall have a one-time opportunity to make a pro-rata investment in the generating station.

Competitive Bidding

Major plant construction involves large capital costs and financial risks. It is crucial for Michigan to secure the right type of power (base load, cycling, peaking, renewable, fossil, etc.) at the lowest possible costs. Utility construction, ownership, and operation of new generating plant is an option for securing that power so long as a better alternative is not available. That alternative might be a proposal by another entity to build the same plant at a lower cost. Therefore, any cost cap proposed by a utility in a reliability option hearing should be given considerable deference if the utility has undertaken a fair and open competitive bid.

Energy Efficiency

None of the parties submitting comments have opposed energy efficiency, and we expect that a demonstration that a proposed plant is the appropriate resource to meet an identified need would include an analysis of cost effective energy efficiency as a resource option.

Construction Partnerships

As method to mitigate the risk of construction, Staff expects that utility proposal made under the reliability option would include an offer to other Michigan load serving entities to become partners in the plant.

Market Power

Detroit Edison has articulated a concern that any new proposal to construct plant may cause it to violate market power provisions of 2000 PA 141. Other parties have indicated that allowing utilities to build additional generation will cause generation to become more concentrated in a few entities and cause an increase in market power.

Encouraging multiple party participation in any new plant construction should help alleviate market power concerns. This is not likely to eliminate those concerns, but allowing a more broad based participation in a construction project should decrease the concentration of ownership and allow parties to secure long-term power at stable prices.