

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion, to)
commence an investigation into future capacity)
requirements.)
_____)

Case No. U-14231

At the October 14, 2004 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. J. Peter Lark, Chair
Hon. Robert B. Nelson, Commissioner
Hon. Laura Chappelle, Commissioner

ORDER COMMENCING INVESTIGATION

Spurred by the possibility of a tightly-constrained power supply market during the summer peak load season, in recent years the Commission has asked public utilities under its regulation to provide detailed projections of their electric supply reliability plans. The Commission began by initiating investigations into the adequacy and reliability of the near-term electric generation capacity available to meet the needs of customers located in the service territories of Consumers Energy Company (Consumers), The Detroit Edison Company (Detroit Edison), and Indiana Michigan Power Company. More recently, the Commission expanded the scope of the investigations to include, among other things, the availability of transmission capacity, the effects of the companies' retail open access programs, affiliate dealings, the Customer Choice and Electricity Reliability Act, MCL 460.10 et seq., expected changes in the wholesale market for electricity in the Midwest, and the interconnection of merchant generating plants.

Because a reliable and abundant supply of reasonably-priced electric power is essential to the economy of this state and to the welfare of its citizens, the Commission is now persuaded that it should also undertake an investigation into the need for additional generation capacity, transmission upgrades, and other supply- and demand-side resources to supplement current Michigan-based generating facilities and out-of-state power sources. Existing businesses located in Michigan depend on a reliable supply of electricity to perform their daily functions. Moreover, the retention, expansion, and location of industrial and commercial facilities in Michigan that provide jobs for the citizens of this state would likely be hindered by the absence of reliable and reasonably-priced electricity.

The Commission is particularly concerned with the inventory of Michigan's base-load generating capability. The average age of base-load generating units located in Michigan is increasing and the last major base-load addition is 16 years old. The average age of the Consumers' and Detroit Edison's base-load generators is 46 years and the average "megawatt weighted" in-service date of those units is 1956. The last new major base-load unit brought on-line was Detroit Edison's Fermi 2 Nuclear Plant, which commenced commercial operations in 1988. The last new base-load, coal-fired unit added to Detroit Edison's system was Belle River 2, which was placed in service in 1985.

In the past 15 years, most of the capacity additions in this state have been fueled by natural gas, a fuel whose available supply has diminished and whose price has increased. The Energy Information Administration projects that natural gas prices will remain relatively high for the rest of 2004. Natural gas spot prices are expected to average \$5.62 per million British thermal units (MMBtu), which equates to a fuel cost of \$0.039 per kilowatt-hour (kWh) for a typical combined cycle gas-fired generating unit with a 6,900 Btu/kWh heat rate. In 2005, spot prices are expected

to increase to \$5.90 per MMBtu or \$0.041 per kWh. Therefore, reliance on natural gas to fuel power plants may result in sharply rising electricity costs compared to costs attributable to coal-burning plants.

Assuming continued load growth and possible retirement of older Michigan-based generating plants, new generating capacity additions, transmission upgrades, and other resource investments may be necessary. The Commission finds that the time has come to consider how those resource needs will be met. The siting and construction of a new power plant is an enormously time-consuming and expensive undertaking. Rules relating to planning and recovery of new generating plant, transmission investment, and demand management are in a state of flux. Moreover, the current structure for providing transmission services has changed in recent years, as regional transmission operators and unbundled transmission owners are now playing a vital role in ensuring reliable service to Michigan customers. The potential for enhanced transmission capabilities to affect generation resources cannot be overlooked. By commencing an investigation into the present and future capabilities of Michigan's electric power system to supply adequate levels of this key product at a reasonable price, the Commission seeks to alleviate some of the risks that could deter investment in needed resources.

The Commission is aware that primary responsibility for transmission planning in this region rests with the Midwest Independent System Transmission Operator, Inc. (MISO). Recovery of transmission investment is also provided under MISO's tariff. While it is not necessary or efficient for the Commission to duplicate MISO's efforts, the Commission is interested in the accumulation, assessment, and evaluation of data by its technical Staff, representatives of the electric power industry, and other interested parties, working in concert, that would assist entities most likely to construct new resources. If a public utility chooses to build new plant, the work

done by the Staff and others should provide guidance to the Commission in determining issues related to a utility's recovery of its construction expenditures.

Toward that end, the Commission directs the Staff to work in conjunction with representatives of the electric power industry and other interested parties to:

A. Analyze all power supply cost recovery filings for five-year load growth forecasts, system requirements, and other data pertinent to the need for resource additions.

B. Review electric utility rate case filings and P-521 annual reports for information regarding property held for future use.

C. Meet with employees within the electric power industry responsible for load growth forecasting, resource additions, and siting issues.

D. Review transmission planning being performed by MISO.

E. Propose membership in a Capacity Need Forum (CNF) to be approved by the Commission. The role of the CNF will be to review data and advise the Commission on resource addition policy matters.

Accordingly, the Commission anticipates that the Staff will proceed with the required efforts in a timely manner. The Commission designates its Engineering and Service Quality Division as the lead division for this program. Further, the Commission directs the Director of the Engineering and Service Quality Division to provide a status report to the Commission by July 1, 2005 and a final report by January 1, 2006. The final report shall address the following:

1. The anticipated short-, intermediate-, and long-term demand for power.
2. An analysis of the ability to meet projected demands from existing resources.
3. If additional resources are needed, an analysis of the potential resource options that are available within each of the timeframes, including, but not necessarily limited to: (a) technical considerations relevant to various options; (b) anticipated capital and operating costs; (c) relevant financing, ownership, and organizational considerations; (d) risks associated with various options; and (e) a discussion of any synergistic effects or the extent to which the choice of some options may enhance or foreclose others.
4. Recommendations.

The Commission is aware that alternative sources of generation capacity, such as qualifying facilities, merchant plants, and distributed generation must be considered in addition to the more traditional sources of supply provided by the state's public utilities. It is not starting this proceeding with the assumption that the future construction of base-load generation is the only solution to future resource shortfalls. The Staff should ensure that renewable resources and everyday efficiency measures are included in the investigation of the need for additional capacity. The work done by the Staff and others pursuant to the orders issued in Cases Nos. U-12915 and U-13843, which implement the legislative mandate set forth in MCL 460.10b(1) and MCL 460.10r(6) to promote renewable resource generation facilities, is exemplary and should be incorporated into the investigation. Given that the focus of the investigation is broader in scope than renewable resources, the previous Staff work related to renewable resources may be supplemented, but it need not be duplicated.

The Commission has selected this case for participation in its Electronic Filings Program. The Commission recognizes that some residential customers may not have the computer equipment or access to the Internet necessary to submit documents electronically. Therefore, residential customers may submit documents in the traditional paper format and mail them to the: Executive Secretary, Michigan Public Service Commission, 6545 Mercantile Way, P.O. Box 30221, Lansing, Michigan 48909. Otherwise, all documents filed in this case must be submitted in both paper and electronic versions. An original and four paper copies and an electronic copy in the PDF should be filed with the Commission. Requirements and instructions for filing electronic documents can be found in the Electronic Filings Users Manual at:

<http://efile.mpsc.cis.state.mi.us/efile/usersmanual.pdf>. The application for an account and letter of assurance are located at <http://efile.mpsc.cis.state.mi.us/efile/help>. You may contact the Staff at

517.241.6170 or by e-mail at mpscefilecases@michigan.gov with questions and to obtain access privileges prior to filing.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 et seq.

b. The Commission should commence a program to be conducted by its technical Staff, representatives of the power generation community, and other interested parties working in unison that accumulates, assesses, and evaluates data concerning the construction of new generation capacity within this state.

c. The Staff should be directed to file a status report with the Commission by July 1, 2005 and a final report by January 1, 2006.

THEREFORE, IT IS ORDERED that:

A. The program described in this order shall be immediately commenced by the Commission Staff, representatives of the power generation community, and other interested parties working in unison to accumulate, assess, and evaluate data concerning the construction of new generation capacity and to recommend policies tailored to facilitate the development of new base-load generation facilities in this state.

B. The Commission Staff is directed to file a status report with the Commission by July 1, 2005 and a final report by January 1, 2006.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark

Chair

(S E A L)

/s/ Robert B. Nelson

Commissioner

/s/ Laura Chappelle

Commissioner

By its action of October 14, 2004.

/s/ Mary Jo Kunkle

Its Executive Secretary

B. The Commission Staff is directed to file a status report with the Commission by July 1, 2005 and a final report by January 1, 2006.

The Commission reserves jurisdiction and may issue further orders as necessary.

MICHIGAN PUBLIC SERVICE COMMISSION

Chair

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By its action of October 14, 2004.

Its Executive Secretary

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Suggested Minute:

“Adopt and issue order dated October 14, 2004 to commence an investigation into future capacity requirements and to require the Commission Staff to submit a status report to the Commission by July 1, 2005 and a final report by January 1, 2006, as set forth in the order.”