March 5, 2020

To: Patrick Hudson
Danielle Rogers

From: Michigan Electric and Gas Association

Re: Comments on the Electric Distribution Planning Stakeholder Staff Report Draft

In response to your solicitation from February 19, 2020 for comments on the draft staff report on the Electric Distribution Planning Stakeholder Process, the Michigan Electric and Gas Association[1] would like to share the following feedback for consideration as staff finalizes its report to the Commission due April 1, 2020. Our comments will focus on the recommendation portion of the draft since no errors or inconsistencies in the description of the stakeholder process were identified as related to the MEGA members. Though some ideas and/or characterizations of what can and should be done in distribution planning cause concerns, we will save those for a more appropriate points in the process, i.e. when the Commission asks for formal feedback on the report and/or makes recommendations on the requirements for future distribution planning.

However, there is one overarching observation that MEGA would like to raise at this time. Early discussions about submitting forward-looking distribution plans focused on things like increasing insight into processes and identifying best practices for distribution investment. This type of information sharing certainly has value. Yet, over time, and as present in some of the recommendations in the draft report, the approach seems to have become increasingly prescriptive. Distribution planning is a continual process of evaluation and decision-making considering the needs of the system and customers based on the unique make up of each utility. Some of the recommendations, particularly related to greater utilization of benefit-cost analyses, give the perception that each decision is black or white/good or bad, when reality is far more nuanced. Adopting an approach that would establish a strict plan and structure that discourages deviation even when different management decisions would result in the best use of resources could result in unintended and undesirable consequences. Flexibility in the utilization of distribution plans will allow for the best decision making at the right time.

That said, nothing in the draft report indicates expansion of the five-year distribution planning requirements under discussion in this report to other small investor-owned utilities and MEGA members.[2] This approach is appropriate since the needs of the systems and investment

[1] MEGA members are investor-owned electric and natural gas utilities that serve fewer than 500,000 customers in Michigan. The electric utility members are Alpena Power Company, Indiana Michigan Power Company, Northern States Power Company – Wisconsin (Xcel Energy), Upper Peninsula Power Company, and Upper Michigan Energy Resources Corporation.

[2] Indiana Michigan Power Company is required to file distribution plans by Michigan Public Service Commission Order U-18370.

profiles of small utilities is different than larger utilities and the impact on relatively few customers with fewer resources of adopting the extensive requirements proposed would be significant. As such, the comments below are only provided in areas where MEGA saw opportunity for consideration of additional concepts or ideas or concerns with the recommendations.

Benefit-Cost Analysis (BCA)

The first sentence of this recommendation is very expansive and raises concerns. First, applying BCA sensitivities to "all" distribution investments, from a practical standpoint, would be unwieldly for the utility and staff.[3] Some distribution investments are quite small and, for instance, done to alleviate an anticipated overloading situation in the near future. How to quantify each possible rationale of a distribution investment and apply it to every project seems beyond what is reasonable and necessary to show prudency of investment decisions. MEGA suggests that the BCA application be for set types of projects, such as grid modernization initiatives or targeted reliability or resilience investments.

Similarly, in the sixth bullet under the BCA section, the requirement to do a grid modernization analysis for all distribution investments is impractical. There are many distribution investments that have nothing to do with grid modernization, like moving a line for a municipality. Any line-by-line type of requirement like this would be difficult and time intensive with little opportunity to show a benefit.

The last bullet in this section requires reporting of actual benefits and costs after project implementation "to monitor performance over time." MEGA understands the desire to adopt methodologies to evaluate projects that are efficient and as accurate as possible and to have the ability to improve these methodologies over time. However, an open-ended, after-the-fact evaluation, based on trying to attribute quantifiable values to things like safety and reliability that would be used to determine performance over time sets up a perpetual platform for potential attack on projects that are already in the ground. As stated, it sounds like the utility would be required to file a plan that would be subject to stakeholder feedback and Commission approval, a filing to recover costs in a rate case thereafter which is subject to stakeholder intervention and Commission approval, and that this would require yet another filing on the same projects with no time boundaries. Any type of after-the-fact evaluation should be limited to grid modernization projects, with a project cost and/or timeline threshold, and with some specific guidance from the Commission about the expected outcomes so that it isn't open ended. Further, inserting some incentives for high performance in these areas, such as a grid modernization rider for projects that meet a set threshold, would be a valuable addition to the staff's recommendation. This idea applies throughout the recommendations, to identify areas where high performance results in incentive ratemaking treatment.

[3] The first bullet also refers to investments using "rate-payer funds." Though ultimately prudent investment decisions will result in recovery from rate payers, the investments as this stage are done with investor funds.

Hosting Capacity Analysis

The first bullet in this section of the recommendations refers to the "interconnection of DER" as the use case, but DER is not defined as it would be applied here. It would be helpful to make clear if it includes demand response, electric vehicles or storage on the load side of the equation. At this time, it would be simpler to just apply to generating DER.

Though some Michigan utilities have significant DERs applying to interconnect to their distribution system possibly making HCA a reasonable investment, there should be a threshold of interest set that would trigger discussions about the need for and structure of a HCA. Whether that be a penetration threshold percentage, factor of unique system impact (X circuits reach Y threshold), or a set number of circuits on the system that cannot accommodate new interconnection of a set kW/MW amount, something should be in place to trigger further investigation of HCA for each utility given the significant investment of time and resources that will be required.

Core Functionality of the Grid and the Role of "Vision" with Grid Planning

Staff suggests articulation of a utility vision for distribution planning. A more expansive discussion and description for what such a vision would look like would be helpful. To many, the modern grid is one that continues to be safe, reliable, and affordable, though the context for these components continues to change as technology changes.

Next Steps

Staff is recommending the distribution plans be refreshed every two years. When considering the time it takes to file a distribution plan and go through the approval process, and then go through the rate case to implement the distribution plan, two years will already have gone by before there is much to assess from the implementation of a plan. At least 3 years or more would allow more meaningful information to be incorporated from one plan to the next.

MEGA appreciates the significant work by staff that went into planning and conducting the stakeholder meetings and preparing the draft report. These discussions, which are also taking place internally at each utility, are important in preparing for the grid of the future. MEGA looks forward to continuing participating in the process.

Sincerely,

Tanya Paslawski
President
Michigan Electric and Gas Association