ISSUE BRIEF

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Indiana Michigan Power C0. 2022 Integrated Resource Plan

MPSC
MICHIGAN PUBLIC SERVICE COMMISSION

1. What is an Integrated Resource Plan (IRP) and why is it important?

An Integrated Resource Plan (IRP) is a roadmap of how an electric utility plans to meet the future electricity needs of its customers in a cost-effective and reliable manner. An IRP addresses issues such as the utility's expected customer demand (including the growth in demand from electric vehicles), the retirement of current generation resources, the amount of anticipated or planned new generation resources, and the timing for building or acquiring these new resources. An IRP also addresses programs that help customers cut energy waste which can impact utility bills, electric reliability, and the environment in the short term and well into the future. This transparent planning process was established in PA 341 of 2016 which directs all rate-regulated utilities to submit IRPs to the Michigan Public Service Commission (the Commission) for review and approval.

2. Does I&M have a previously approved IRP?

This IRP is the first approved IRP for Indiana Michigan Power (I&M) in Michigan.

3. How does the Commission evaluate an IRP?

An IRP is submitted for review through the Commission's contested case process. In addition to the utility and MI Public Service Commission Staff (the Staff), multiple stakeholders generally intervene as parties to the case and submit expert witness testimony regarding the proposed IRP to the case record.

To approve an IRP, the Commission must determine that the utility proposal represents the "most reasonable and prudent" means of meeting the electricity needs of the utility's customers. An IRP must appropriately balance factors related to resource adequacy, reliability, compliance with environmental rules, competitive pricing, and diversity of supply. An IRP must also determine whether levels of planned peak load reduction[1] and energy waste reduction, both of which can help to lower customer demand, are reasonable and cost-effective. The Commission considers all record evidence in the case in its evaluation of the IRP.

4. Three parties submitted a proposed settlement agreement. What are the major features of the settlement agreement?

Three parties entered into a proposed settlement agreement which was filed with the Commission in November. The settlement agreement includes the following terms:

- I&M will procure new resources using the Commission's request for proposal process to target procurement of

1 Peak load reduction can be achieved in several ways including, for instance, through utility demand response programs

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  - ➞ 2,160 MW from new carbon-free resources or the expansion of existing carbon-free resources, and
  - ➞ 255 MW from dispatchable carbon-free resources such as hybrid renewable plus storage or stand-alone storage
- Of the new carbon free resource capacity additions, I&M will target to procure at least 30% through purchased power agreements (PPAs) and about 70% from company-owned assets
- If at least 50% of its capacity additions are through PPAs, I&M will earn an incentive
- I&M has a 750 MW capacity need, but the specifics of that need will be determined in a future proceeding under MCL 460.6s, which will include updated pricing information and consider a full range of alternatives, consistent with the terms of the settlement agreement
- I&M will file an ex parte application with the Commission for approval of costs for generation and storage resources for all projects less than 225 MW and a certificate of necessity application for projects greater than 225 MW
- I&M will increase its annual energy waste reduction (EWR) savings targets incrementally over the next five years to achieve 2% by the end of 2027 and maintain 2% until its next IRP. Interim targets of 1.6% in 2024, 1.75% in 2025, 1.9% in 2026 are provided for. If I&M fails to achieve 1.75% EWR by the end of 2025, it will transfer management of the program to a third-party administrator
- I&M will increase its EWR low-income spending target to 12% of the total annual EWR program budget by the 2025 plan year, with interim spend targets of 8.3% by 2023 and 10% by 2024
- I&M's Michigan jurisdictional share of its coal-fired Rockport Unit 2 will be fully recoverable in rates through 2028 at the end of its lease
- I&M's conservation voltage reduction (CVR) program is approved as reasonable for the next three years with capital costs approved for 2023 through 2025

5. Does the settlement agreement include the preapproval of any costs?

The settlement agreement includes the preapproval of reasonable and prudent expenditures of I&M's CVR program capital costs for 2023 -2025. The settlement agreement does not contain any other preapproved costs.

6. Did all parties agree to the settlement? Was there any opposition? If so, how was it handled?

Four parties to the case either joined in the settlement agreement or submitted statements of non-objection.

When a settlement agreement is filed, each party has fourteen days to file either an agreement, objection, or a statement of non-objection to the agreement (Administrative Hearing Rule 792.10431). Objecting parties are provided an opportunity to submit evidence and arguments in opposition to the agreement.

Five parties to the case (the Attorney General, the Citizen Utility Board of Michigan, the Great Lakes Renewable Energy Association, Sierra Club, and the Michigan Environmental Council) filed objections to the settlement agreement.

In order to approve a proposed settlement agreement, the Commission must make the following findings:

- The Commission must find that the public interest is adequately represented by the parties who entered into the settlement agreement
- The Commission must find that the settlement agreement is in the public interest and represents a fair and reasonable resolution of the proceeding
- If any party objects to the settlement agreement (a "contested settlement"), the Commission must also find that the settlement agreement is supported by "substantial evidence on the record as a whole"

Pursuant to Rule 431 discussed above, the Commission provided an opportunity for the

objecting parties to submit evidence and legal briefs on the proposed settlement agreement. The Commission reviewed the evidence submitted by all parties regarding the settlement agreement and found that the parties to the agreement adequately represented the public interest, that the settlement agreement is in the public interest and represents a fair and reasonable resolution of the proceeding, and that the agreement is supported by substantial evidence on the record. Therefore, the Commission approved the settlement agreement, which became effective immediately upon the Commission's issuance of the order.

7. The objecting parties alleged that the public interest was not sufficiently represented by the parties to the settlement agreement. Did the Commission address this concern in its order?

The Commission found that the participation of numerous parties in this proceeding led to a better and more robust record both in the underlying initial phase of the case and as part of the contested settlement process and the fact that several parties filed objections does not negate the fact that the public interest is adequately represented by the parties who entered into the settlement agreement. The Commission also noted in its order that the Court of Appeals has affirmed that the public interest is adequately represented by the Staff when the Staff is a party to a contested settlement agreement.

The Commission noted that it fully considered the objections on the record, that the settlement agreement is in the public interest, provides a reasonable resolution to this proceeding, and is supported by substantial evidence on the record as a whole. The Commission found that the settlement agreement was negotiated in good faith and recognized that a settlement agreement is a creature of compromise.

8. The objecting parties argued that I&M's preferred course of action contained biases, outdated assumptions due to the passage of the Inflation Reduction Act (IRA), claimed deficient modeling, alleged double recovery of costs associated with Rockport Unit 2, and opposition to using locational marginal pricing as the avoided cost for energy under Public Utility Regulatory Policies Act (PURPA). Did the Commission's order address these concerns?

Several parties objected to the settlement agreement citing, in part, renewable energy cost estimates that became outdated during the proceeding due to the passage of the Inflation Reduction Act which expands and extends tax credits related to renewable energy and energy storage. While these parties argued that the settlement agreement ignored the impacts of the IRA relative to reducing the costs of renewable energy, the Commission found that I&M's commitment to conducting an "all-source, nondiscriminatory" RFP to secure additional capacity provided assurance that the benefits of the IRA will be realized in I&M's procurement of this capacity.

Parties also objected to the settlement citing underlying concerns with the company's modeling that supported the development of the IRP. While the Commission acknowledged these concerns, it did not find them sufficiently compelling to reject the settlement agreement and cited two reasons to support its conclusion. First, I&M will be required to file for a Certificate of Necessity (CON) under MCL 460.6s for the 750 MW of need referenced in the settlement agreement. In order to provide the evidence necessary in the CON proceeding, the company will need to conduct a "robust analysis of costs and resource options for meeting power demand." Because a company seeking a CON must demonstrate that the proposed resource is "the most reasonable and prudent relative to other resource options presented by interveners," the Commission found sufficient evidence to support this provision of the settlement agreement. Second, the Commission noted that it has the authority under MCL 460.6t(21) to direct a utility with an approved IRP to file a plan review which could be used to address any future concerns.

Several parties also objected to the settlement agreement on the grounds that it would permit I&M double recovery on Rockport Unit 2. The Commission found that it had previously approved the return of the net book value of the plant in a previous order, and was therefore not persuaded that the settlement presented the opportunity for double recovery.

I&M, along with a number of other utilities, is a party to an Inter-Company Power Agreement (ICPA) with the Ohio Valley Electric Corporation (OVEC). Several parties objected to the settlement agreement's status quo treatment of the OVEC ICPA. The Commission noted that the settlement results in no cost approvals of any kind relative to the ICPA, that costs would continue to be reviewed in other proceedings, and that the settlement agreement does not result in either express or implied approval of the OVEC ICPA. On this basis, the Commission found that the treatment of the OVEC ICPA did not warrant rejection of the settlement agreement.

Some parties also objected to the settlement agreement based on the agreement's handling of the Rockport Unit Power Agreement (UPA) and PURPA considerations. However, the Commission did not find that these terms settlement terms required its rejection.

9. When will I&M file its next IRP?

Pursuant to PA 341 of 2016 (MCL 460.6t(20)), the company will file its next IRP no later than 5 years from the date of the order. I&M can always choose to file sooner.